"A true Innovator not only finds new ways to do old things, but goes on to find new ways to do new things - always making it easier, cheaper, better! Be an Innovator!" -

Sanjay Dalal

Creativity And Innovation In Business

Faculty eBook and Definitive Guide

Insights, Best Practices and Case Studies

Originally published at:

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"**1) Innovation and growth** is not a fuzzy process of screwing around vigorously (SAV) but can be a systematic process,
2) Innovation and growth is not something that happens in a department like R&D or product development…,
3) Innovation and growth is not about products or solutions – it is about creating a transformational change in the way people live, work and play…"

- Erich Joachimsthaler, Chapter 26

Introduction

I began the Creativity And Innovation Driving Business blog at http://CreativityAndInnovation.blogspot.com in September 2006 after getting inspired from taking "Leading through Creativity" course at Cornell University's online eLearning center eCornell. My blog's mission is to offer collective experiences, best practices and insights on creativity and innovation driving business, provide questions and answers on generating, managing and growing creativity and innovation through proven processes, and publish case studies, ideas and stories on top innovators of The Innovation Index creating disruptive innovations and growing market leadership.

What started as a pastime on writing about creativity and innovation in business soon became a real-time passion. The result is a diverse yet pertinent collection of business creativity and business innovation best practices and case studies on an award-winning blog that is touted by major online innovation portals and websites, visited by tens of thousands of visitors, and leveraged as an essential resource by business leaders and students alike. I am grateful to Chuck Frey of InnovationTools.com who introduced me to the world of online innovation:

"Sanjay Dalal, who has a background in product marketing and entrepreneurship, has launched a new innovation-focused blog called Creativity Driving Innovation in Business. He's off to a very impressive start, with topics such as these gems:

- Toyota's innovation factory
- Six ways to find innovation
- Co-creation driving innovation
- Can leadership create innovation?

"Sanjay Dalal, author of the Creativity & Innovation Driving Business Blog, recently launched a new Innovation Index that measures the performance of the 18 most innovative publicly-traded companies in North America, based on their stock prices. This list includes Fortune 100 companies such as 3M, HP, IBM and Proctor & Gamble, as well as innovative firms that are best known by their breakthrough brands: Apple, Cisco, Starbucks and Google, for example…

This sounds like a fascinating strategy, and I applaud Sanjay for developing it. With his permission, I plan to include a visual summary of the Innovation Index on the InnovationTools home page, to help you track the performance of these innovative firms."
– Chuck Frey, InnovationTools.com, Market Leader on Business Innovation

This eBook is a collection of Creativity and Innovation best practices and case studies, articles, interviews, and opinions on the current state of innovation in business at Top 20 Innovators of The Innovation Index. I have strived to provide real-world examples on how the top innovators innovate and grow their business successfully time and again. Use this eBook as a definitive guide to find and create game-changing innovations, unblock creativity, and make innovation successful at your business. Good luck innovating!

Sanjay Dalal (May 2009, Irvine, California)

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Chapter 1

The Top 50 Innovative Companies in the World

Which are the Top 50 Innovative Companies in the world on the leading edge of innovation? Which companies innovate every year, and bring to market winning new products, services and solutions that are game changing? Which companies are the game changers? Which companies sustain their businesses in downturn and out-innovate and outgrow their rivals?

Listed below is the 2007 Top 50 Innovative companies in the world, along with their 2006 ranking comparison.

Apple Inc. (NASDAQ: AAPL) is #1 again, 3rd year in a row. Google Inc. (NASDAQ: GOOG) is #2 again. And climbing up one notch is Toyota at #3. General Electric (NYSE: GE) is #4, up 2 places; Microsoft (NASDAQ: MSFT) held steady at #5, Proctor & Gamble (NYSE: PG) went up 1 spot to #6, 3M (NYSE: MMM) went down 4 notches to #7, Walt Disney Co (NYSE: DIS) zoomed up a whopping 35 places to #8, IBM (NYSE: IBM) went up 1 place to #9, and Sony climbed 3 places to #10.

There are many new innovators in the BusinessWeek top 50. AT&T (NYSE: T), Citigroup (NYSE: C), Verizon (NYSE: VZ), Nintendo (Japan), Volkswagen (Germany), Best Buy (NYSE: BBY), Merck (NYSE: MRK) and News Corporation (NYSE: NWS) are your new companies. Besides, Royal Philips Electronics (Netherlands), Costco Wholesale (NASDAQ: COST), Pfizer (NYSE: PFE), Johnson & Johnson (NYSE: JNJ), Amgen (NASDAQ: AMGN), McDonald's Corporation (NYSE: MCD), and LG Electronics (South Korea) have vaulted into the top 50 rankings (in 2006, these companies were ranked in the top 100, outside the top 50). This means, a few innovators dropped out of the top 50.

"It should come as little surprise, then, that Apple tops the BusinessWeek-Boston Consulting Group's list of the World's Most Innovative Companies for the third year in a row. That sort of staying power speaks volumes about the sort of innovation that matters today. Unlike the Post-it Note, which proves the value of lone inventors, the iPod epitomizes today's innovation sensibilities. These include the ascendance of design, the focus on the user's experience, and the power of ecosystems: The iPod is a hit because it works so seamlessly with the iTunes software. The company's much-anticipated iPhone, which launches in June, will likely keep Apple high on our list next year too." – BW

In the latest BusinessWeek-Boston Consulting Group's list of the World's 50 Most Innovative Companies, Apple Inc. (NASDAQ: AAPL) topped the list 3rd year in a row. Apple is crowned the #1 – Number One – Top Innovative Company. Although

BusinessWeek and the readers tout Apple's iPod and iTunes, and soon to be launched iPhone, I believe iMac has come onto its own now, and Apple TV will potentially have a significant impact in 2007 and beyond.

2007	2006	Company	Country	Continent	
1	1	APPLE	USA	North	America
2	2	GOOGLE	USA	North	America
3	4	TOYOTA	Japan	Asia	
4	6	GENERAL ELECTRIC	USA	North	America
5	5	MICROSOFT	USA	North	America
6	7	PROCTER & GAMBLE	USA	North	America
7	3	3M	USA	North	America
8	43	WALT DISNEY CO	USA	North	America
9	10	IBM	USA	North	America
10	13	SONY	Japan	Asia	
11	20	WAL-MART	USA	North	America
12	23	HONDA MOTOR	Japan	Asia	
13	8	NOKIA	Finland	Europe	
14	9	STARBUCKS	USA	North	America
15	22	TARGET	USA	North	America
16	16	BMW	Germany	Europe	
17	12	SAMSUNG ELECTRONICS	South	Korea	Asia
18	11	VIRGIN GROUP	United	Kingdom	Europe
19	17	INTEL	USA	North	America
20	21	AMAZON.COM	USA	North	America
21	70	BOEING	USA	North	America
22	14	DELL	USA	North	America
23	27	GENENTECH	USA	North	America
24	18	EBAY	USA	North	America
25	28	CISCO SYSTEMS	USA	North	America
26	30	MOTOROLA	USA	North	America
27	25	SOUTHWEST AIRLINES	USA	North	America
28	15	IDEO	USA	North	America
28	19	IKEA	Sweden	Europe	
30	31	DAIMLERCHRYSLER	Germany	Europe	
31	42	HEWLETT-PACKARD	USA	North	America
32	29	NIKE	USA	North	America
33	40	BP	United	Kingdom	Europe
34	24	RESEARCH IN MOTION	Canada	North	America
35	NR	AT&T	USA	North	America
36	NR	CITIGROUP	USA	North	America
37	NR	VERIZON	USA	North	America
38	67	ROYAL PHILIPS ELECTRONICS	Netherlands	Europe	
39	NR	NINTENDO	Japan	Asia	
40	84	COSTCO WHOLESALE	USA	North	America
41	NR	VOLKSWAGEN	Germany	Europe	
42	55	PFIZER	USA	North	America
43	NR	BEST BUY	USA	North	America
44	53	JOHNSON & JOHNSON	USA	North	America
45	87	AMGEN	USA	North	America
46	NR	MERCK	USA	North	America
47	NR	NEWS CORPORATION	USA	North	America
48	100	MCDONALD'S	USA	North	America
49	85	LG ELECTRONICS	Korea	Asia	
50	51	EXXONMOBIL	USA	North	America

Top 50 Innovative Companies in the world

Last year (December 2006), I started The Innovation Index of the Top 20 innovators partly based on 2006 BusinessWeek rankings of North American companies. I had only included the top 25 publicly traded North American companies in The Innovation Index based on the BusinessWeek rankings so as to evaluate their innovation activity and stock performance on a weekly basis. I am now planning to revise The Innovation Index for 2008 based on this new ranking from BusinessWeek, and am considering including the global publicly traded Innovators – the likes of Toyota, Sony, Nokia, BMW, Samsung, Philips, Infosys (although Infosys was not included in the Top 50 this year), top innovator from China, and more – besides the North American Innovators. This would create the first Global Innovation Index for 2008.

How did BusinessWeek come up with the Top 50 Innovative Companies ranking?

According to the BusinessWeek article:
"The BusinessWeek-Boston Consulting Group 2007 list of the World's Most Innovative Companies is based on a senior management survey about innovation and was distributed electronically to executives worldwide in late 2006. In October, surveys were sent to the 1,500 largest global corporations, determined by market capitalization in U.S. dollars, with instructions to send the survey to their top 10 executives in charge of innovation. The survey was also distributed to senior management members of the BusinessWeek Market Advisory Board, an online panel consisting of BusinessWeek readers, and via the Knowledge@Wharton e-mail newsletter. Survey participation was voluntary and anonymous, and the survey closed in March, 2007. The survey consisted of 20 general questions on innovation and an optional 12 questions focused on innovation metrics.

A **total of 2,468 executives** answered the survey. Of those indicating their location, **77% were from North America, 12% were from Europe, and 9% were from Asia or the Pacific region**. A larger share of North American voters this year may explain some movement in the rankings of some companies on our list."

Compare this to **2006 BusinessWeek rankings**, wherein **only 1,070 executives** answered the survey, although the mix was globally representative – **46% were from North America, 30% from Europe, and 16% from Asia and Pacific.**

In 2007, out of the top 50 innovative companies, only 14 were outside North America; in 2006, 20 companies were outside North America. Perhaps this has to do with the executives answering the survey, and their representative global mix.

Regardless, the top 50 innovators in the world are world-class companies creating new innovations through unmatched creativity and driving profitable growth.

The world will be watching as these innovators bring to market great new products in 2008 and beyond.

2008 Update

BusinessWeek/Boston Consulting Group (BCG) have announced the world's top 50 innovative companies. Here is the 2008 List of the Top 50 Innovative Companies in the world:

Rank	Company	HQ Country	HQ Continent	Revenue Growth 2004-07* (in %)	Margin Growth 2004-07* (in %)	Stock Returns 2004-07** (in %)	Most Known for its Innovative... (% who think so)
1	APPLE	USA	North America	47	69	83	Products (52%)
2	GOOGLE	USA	North America	73	5	53	Customer Experience (26%)
3	TOYOTA MOTOR	Japan	Asia	12	1	15	Processes (36%)
4	GENERAL ELECTRIC	USA	North America	9	1	3	Processes (43%)
5	MICROSOFT	USA	North America	16	8	12	Products (26%)
6	TATA GROUP	India	Asia	Private	Private	Private	Products (58%)
7	NINTENDO	Japan	Asia	37	4	77	Products (63%)
8	PROCTER & GAMBLE	USA	North America	16	4	12	Processes (30%)
9	SONY	Japan	Asia	8	13	17	Products (56%)
10	NOKIA	Finland	Europe	20	2	35	Products (36%)
11	AMAZON.COM	USA	North America	29	-11	28	Customer Experience (33%)
12	IBM	USA	North America	1	11	4	Processes (31%)
13	RESEARCH IN MOTION	Canada	North America	56	-1	51	Products (37%)
14	BMW	Germany	Europe	6	-5	11	Customer Experience (40%)

15	HEWLETT-PACKARD	USA	North America	10	17	35	Processes, Business Models, and Customer Experience (27% each)
16	HONDA MOTOR	Japan	Asia	12	6	14	Products (40%)
17	WALT DISNEY	USA	North America	6	14	7	Customer Experience (63%)
18	GENERAL MOTORS	USA	North America	-2	NA***	-11	Products (55%)
19	RELIANCE INDUSTRIES	India	Asia	31	-7	94	Business Models (31%)
20	BOEING	USA	North America	9	32	21	Products (63%)
21	GOLDMAN SACHS GROUP	USA	North America	30	6	28	Processes and Business Models (33% each)
22	3M	USA	North America	7	5	3	Products (45%)
23	WAL-MART STORES	USA	North America	10	-2	-2	Processes (48%)
24	TARGET	USA	North America	11	3	0	Customer Experience (67%)
25	FACEBOOK	USA	North America	Private	Private	Private	Customer Experience (51%)
26	SAMSUNG ELECTRONICS	South Korea	Asia	2	-14	8	Products (42%)
27	AT&T	USA	North America	43	6	23	Customer Experience (33%)
28	VIRGIN GROUP	Britain	Europe	Private	Private	Private	Customer Experience (47%)
29	AUDI	Germany	Europe	11	11	41	Products (50%)
30	MCDONALD'S	USA	North America	7	-7	25	Customer Experience (42%)
31	DAIMLER	Germany	Europe	-11	37	28	Products (35%)
32	STARBUCKS	USA	North America	23	-2	-13	Customer Experience (60%)

33	EBAY	USA	North America	33	-37	-17	Business Models (28%)
34	VERIZON COMMUNICATIONS	USA	North America	12	0	9	Services (41%)
35	CISCO SYSTEMS	USA	North America	20	-5	12	Products (35%)
36	ING GROEP	Netherlands	Europe	7	4	11	Services (41%)
37	SINGAPORE AIRLINES	Singapore	Asia	9	5	20	Customer Experience (55%)
38	SIEMENS	Germany	Europe	1	21	22	Products (41%)
39	COSTCO WHOLESALE	USA	North America	11	-5	14	Customer Experience (46%)
40	HSBC	Britain	Europe	12	-1	4	Services (39%)
41	BANK OF AMERICA	USA	North America	12	0	0	Customer Experience and Services (23% each)
42	EXXON MOBIL	USA	North America	11	7	25	Processes (50%)
43	NEWS CORP.	USA	North America	4	4	4	Business Models (47%)
44	BP	Britain	Europe	14	-5	11	Processes (42%)
45	NIKE	USA	North America	8	-1	14	Customer Experience (43%)
46	DELL	USA	North America	7	-12	-17	Business Models (37%)
47	VODAFONE GROUP	Britain	Europe	7	-21	15	Business Models (33%)
48	INTEL	USA	North America	4	-10	6	Products (53%)
49	SOUTHWEST AIRLINES	USA	North America	15	9	-9	Customer Experience (50%)
50	AMERICAN EXPRESS	USA	North America	3	1	3	Customer Experience (35%)

Table Adapted from BusinessWeek Top 50 Innovative Companies 2008

17 of the Top 20 Innovators of The Innovation Index are included in the top 50 innovative companies of the world by BusinessWeek/BCG.

There were many new entrants in 2008. The top five innovators from last year, have strengthened their positions further, and remain in the top five slots this year also. Apple is #1 for the fourth time in a row owing to another innovation milestone: Apple iPhone. Google is #2 again owing to the growth of the AdWords and AdSense businesses. Toyota Motor remains at #3, General Electric at #4 and Microsoft at #5.

Tata Group - India vaults into the Top Ten innovative company list for the first time at #6. Tata was not in the top 50 innovative company list last year. Tata recently acquired Jaguar and Land Rover. Although the big reason Tata is in the top ten is owing to the introduction of Tata Nano, a $2,500 new car that will revolutionize the car industry. Nintendo, at #7, is the top innovator out of Japan, thanks to the runaway success of Wii. Proctor & Gamble fell one notch to #8, but stayed in the Top Ten innovators list. P&G is a perennial innovator, and figures to be in Top Ten for the foreseeable future. Another Top Ten innovator went up a notch to #9 - Sony. Sony's Blu-Ray and new product mix is causing a turnaround. Rounding out the Top Ten is Nokia out of Finland. Nokia went up 3 places and surged back to the Top Ten list. Nokia is the heavyweight in wireless, and the new Nokia models are doing rather well.

General Motors is on a comeback with exciting new electric concept cars, and remarkable new vehicles in the Buick, Hummer, Cadillac and Saturn lines. Is GM on a rebound, and can it rebuild in 2008-2009? BMW, Honda Motor, Audi and Daimler are also in the top 50 list. Reliance Industries, another Indian innovator, vaults into the Top Twenty list of innovators. Reliance is a household name in India - from wireless to telecommunications, technology to infrastructure - Reliance is found in virtually every industry in India. There are key companies shining in this year's list out of England including Vodafone, BP, HSBC, and Virgin Group. Representing the Financials segment are Goldman Sachs, Bank of America, ING, HSBC and American Express. Overall, 2008 list of innovators is very well represented globally.

#25 on the list is Facebook - a new innovator who has the sixth highest trafficked website on social networking - who can one day challenge Google and MySpace.com.

According to BusinessWeek, "2008 list of the World's Most Innovative Companies adds three financial measures to the mix to determine the rankings. For this year's list, votes cast in the proprietary BusinessWeek-BCG survey received 80% of the overall weighting, stock returns were weighted 10%, while three-year revenue and margin growth each got 5%. While these changes -- only votes from our survey counted in the past -- marked the biggest shift yet in our rankings of the World's Most Innovative Companies, there are some similarities to previous years."

Acknowledgements:
BusinessWeek announcement of the top 50 innovative companies of the world, an annual ranking compiled along with Boston Consulting Group.

BusinessWeek:

http://bwnt.businessweek.com/interactive_reports/most_innovative/index.asp?chan=innovation_special+report+--+2007+most+innovative+companies_2007+most+innovative+companies
http://www.businessweek.com/magazine/content/06_17/b3981401.htm

http://bwnt.businessweek.com/interactive_reports/innovative_companies/?chan=magazine+channel_special+report

Chapter 2

The Innovation Index

Introducing The Innovation Index

The Innovation Index is a compilation of the Top 20 Innovators in North America. Most of these Innovators are prestigious companies including GE, 3M, HP, IBM, and Proctor & Gamble who have created numerous innovations and shaped our lives over the past fifty plus years; some leaders are better known by their innovative product brands - Blackberry by Research In Motion, iPod and iMac by Apple, online shopping by Amazon.com, Windows and Office by Microsoft, Microprocessor powered by Intel; the list also includes leaders whose creativity and brands have become synonymous to markets: networks by Cisco, business computers by Dell, marketplace of traders by eBay, hot coffee and cappuccino by Starbucks, fashionable clothing by Target, lowest price shopping by Wal-Mart, low airline fares by Southwest Airlines, and search nirvana by Google.

The alphabetical list of the Top 20 Innovators of The Innovation Index (for 2007) along with their stock ticker symbols are presented below:

3M Company - MMM
Amazon.com, Inc. - AMZN
America Movil - AMX (added end of December 2006)
Apple Computer, Inc. - AAPL
Cisco Systems, Inc. - CSCO
Dell Inc. - DELL
eBay Inc. - EBAY
General Electric Co. - GE
Google Inc. - GOOG
Hewlett-Packard Co. - HPQ
Intel Corporation - INTC
International Business Machines Corp. - IBM
Microsoft Corporation - MSFT
Research In Motion Limited - RIMM
Southwest Airlines Co. - LUV
Starbucks Corporation - SBUX
Target Corp. - TGT
The Proctor & Gamble Company - PG
Wal-Mart Stores, Inc. - WMT
Yahoo! Inc. - YHOO (added end of December 2006)

For 2008, six Top Innovators were changed. The alphabetical list of the Top 20 Innovators of The Innovation Index for 2008 and their stock ticker symbols are presented below (new Innovators are highlighted):

3M Company - (NYSE: MMM)
Amazon.com, Inc. - (NASDAQ: AMZN)
America Movil - (NYSE: AMX)
Apple Inc. - (NASDAQ: AAPL)
AT&T Inc. - (NYSE: T)
Best Buy Co., Inc. - (NYSE: BBY)
Cisco Systems, Inc. - (NASDAQ: CSCO)
Costco Wholesale Corporation - (NASDAQ: COST)
eBay Inc. - (NASDAQ: EBAY)
General Electric Co. - (NYSE: GE)
Google Inc. - (NASDAQ: GOOG)
Hewlett-Packard Co. - (NYSE: HPQ)
Intel Corporation - (NYSE: INTC)
International Business Machines Corp. - (NYSE: IBM)
Merck & Co., Inc. - (NYSE: MRK)
McDonald's Corporation (NYSE: MCD)
Microsoft Corporation - (NASDAQ: MSFT)
NIKE, Inc. - (NYSE: NKE)
Research In Motion Limited - (NASDAQ: RIMM)
The Proctor & Gamble Company - (NYSE: PG)

AT&T is an innovator owing to the growth in wireless business, and new innovations such as U-verse digital TV – IP-based video service. U-verse had a net subscriber gain of 148,000 to reach 379,000 in service in Q1, 2008. *AT&T expects further ramp in the quarters ahead and is on track to reach its target of more than 1 million subscribers by the end of 2008.*

Best Buy has become the shopping destination for electronics – plasma TVs, computers, music and music players, game consoles and more. In addition, Best Buy provides excellent, knowledgeable customer service. Costco is fast becoming a household name for providing the best overall price, value and experience to its members on a variety of items – groceries, electronics, furniture, jewelry, optical, pharmacy, automotive, gas and more. Merck is a pharmaceutical bell-weather that continues to introduce new drugs for various population demographics. McDonald’s has morphed itself from a hamburger fast food place to a family restaurant with new products including coffee, iced latte, walnut salads, southern style breakfast chicken, fresh kids meals and more. Nike has expanded its footprint all over the world and has become the quality brand for not only sneakers, but also apparel and sports equipments. Nike has come up with such innovations as Nike

Plus along with Apple by providing great shoes that synchronize with music from the iPods – through a wireless sensor. These innovators are showing double-digit year over year revenue and earnings growth.

Innovation Index Report

The Innovation Index Report incorporates the following objectives and is released quarterly:

1. Report, analyze and project the stock performance of the Top 20 Innovators in North America, and compare their performance to S&P, NASDAQ and Dow Jones.

2. Compare and contrast best practices, initiatives, new products, successes, strategies, stories, leadership and insights on Creativity and Innovation at the Top 20 Innovators.

3. Showcase Disruptors challenging these Top Innovators, their disruptive innovation strategy, and their current and potential impact on the Innovators' customer base and market share.

A potential "The Disruption Index" could also arise once the market of Disruptors grows, and they become identified and accounted for. For example, The Disruption Index could include Juniper Networks and highlights about how it is disrupting Cisco Systems, Advanced Micro Devices' and its challenge versus Intel, and Yahoo!, the once crowned Internet Innovation King now in a Disruptor's role vis-à-vis Google.

Five Years Historical Stock Performance Returns of The Innovation Index

Yearly Performance		2002	2003	2004	2005	2006
The Innovation Index		**-13.87%**	**77.58%**	**37.15%**	**10.68%**	**18.01%**
S & P 500	^GSPC	-23.37%	26.38%	8.99%	3.00%	13.62%
Nasdaq	^IXIC	-31.53%	50.01%	8.59%	1.37%	9.52%
Dow Jones	^DJI	-16.76%	25.32%	3.15%	-0.61%	16.29%
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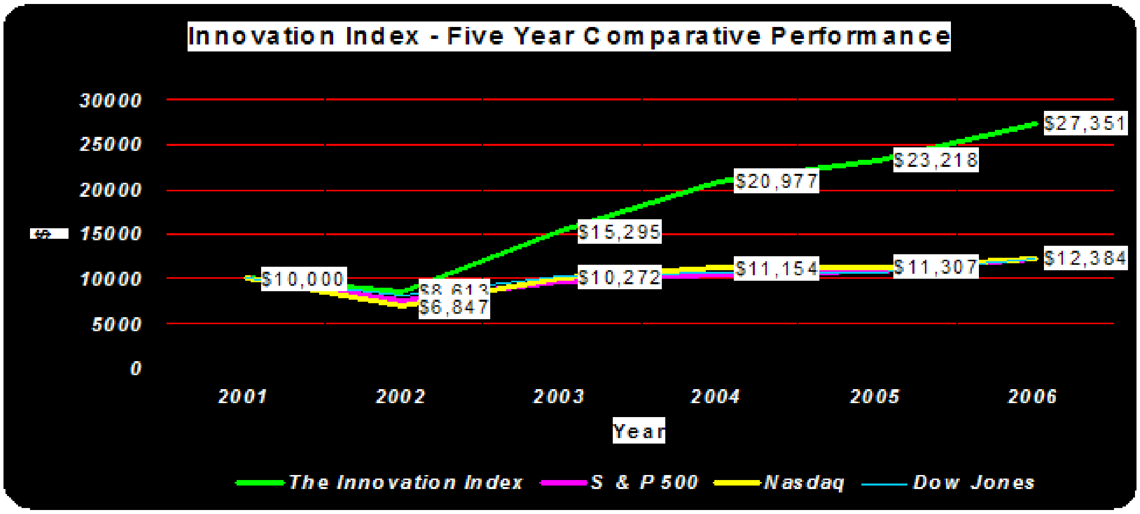
If you are a long-term stock investor, and had invested in The Innovation Index in December 2001, The Innovation Index would have returned a staggering 174% compounded gross return during the next five years through December 2006. $10,000 invested in The Innovation Index in December 2001 would have resulted in $27,351 by December 2006. By comparison, the major U.S. stock indices only delivered 24% compounded gross return during the same period. $10,000 invested in the major U.S. indices would have only resulted in approximately $12,400 during the same period. Thus The Innovation Index historically outperforms the major U.S. indices by more than six times.



Top Innovators Performance in 2006

In one word: Surprising. The number one Innovator by stock performance in 2006 is not Google, nor Apple - the top two innovators in the world. Rather it is an Innovator that knows a thing or two about causing disruption in the business segment of mobile devices by its ubiquitous wireless email service: Research In Motion - RIMM. The Blackberry, called "crackberry" by its cult-like business users who are so hooked on the e-mail that they can't even go to sleep without it being on, has fundamentally changed how the business world communicates via wireless email with total ease and security. What is also surprising is eBay (EBAY), the darling of the Internet boom, is showing the highest negative return so far this year out of the Top 20 Innovators. eBay is sure to answer back next year with a host of new planned innovations. Cisco Systems (CSCO) is on the rebound this year notching gains over 50% for the year; bell-weather, Hewlett Packard, is also showing impressive gains of about 40% for the year. Are they innovating and executing better this year? On the other hand, Dell (DELL), Intel (INTC) and Amazon.com (AMZN) are all showing double-digit negative returns for the year. *Are Disruptors challenging their leadership positions? Would they be around as Innovators next year in the index?*

Overall, The Innovation Index shows a solid return of 14% for the year through early December, beating the S & P 500 and NASDAQ, and in a virtual tie with the Dow Jones Industrial Index average. The Innovation Index is currently at 75.61 points, up 9.03 points for the year. Only 5 out of 18 companies in The Innovation Index are showing negative returns. Seven Innovators are showing double-digit returns; while the venerable companies including GE, Wal-Mart and 3M are showing less than 5% return – I will be exploring under the hood as to why this is the case. ***I believe though that in the longer term, in as much as the Innovation Index continues to include the most innovative companies in the world founded on creativity and ingenuity driving business***

innovation, the Innovation Index will outperform the respective market indices. On the other hand, The Disruption Index could be even more spectacular in annual returns owing to smaller yet high growth companies carving out significant market share, and challenging the sustainers.

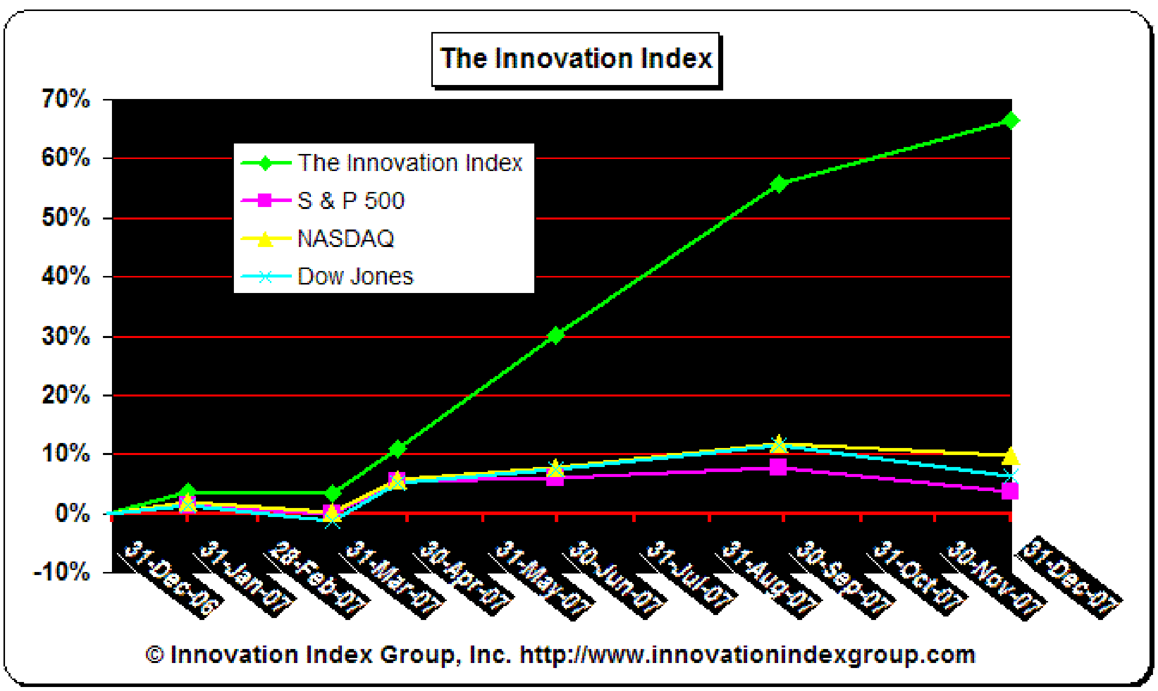
2006 Innovation Index performance:

The Innovation Index closed 2006 with 18.01% return, beating the major U.S. indices.

The Top 20 Innovators of The Innovation Index had a remarkable 2006 shaping out over **1,311 new innovations** over the year, an average of 67 innovations per Innovator. The Top 20 Innovators created 805 new and enhanced products, 411 strategic collaborations and partnerships, and 95 new acquisitions. It's safe to say that our Top 20 Innovators were busy in 2006 creating a plethora of new products, collaborations and acquisitions, and solid revenue growth. The investors rewarded the Top 20 Innovators. Their combined market cap increased by 11% to $2.23 trillion from $2.01 trillion in 2006, an average increase of $11 billion per Innovator.

2007 Innovation Index performance:

The Innovation Index had a banner year, and gained 66% in 2007. The Innovation Index easily beat the major U.S. indices including the S & P 500, NASDAQ and Dow Jones. S & P 500 was up 4% for the year, NASDAQ was up 10% for the year and the Dow Jones Index was up 6% for the year.



2007 Leaders

Research In Motion Limited - (NASDAQ: RIMM) was the 2007 leader in stock performance, with 166% gain for the year. Amazon.com, Inc. (NASDAQ: AMZN) was equally impressive with 135% gain for the year. Apple Inc. (NASDAQ: AAPL) had a great year with 133% appreciation for the year. There were eight other innovators with double-digit gains for the year. Among these innovators, Google Inc. (NASDAQ: GOOG) led with 50% gain. America Movil (NYSE: AMX) was next up with 36% gain in 2007, and Intel Corporation (NYSE: INTC) closed out 2007 with 32% gain. Overall, 13 innovators finished 2007 with positive gains.

2007 Laggards

Six innovators finished the year in the negative, led by Starbucks Corporation (NASDAQ: SBUX) declining 42% for the year. Southwest Airlines Co. (NYSE: LUV) was next, declining 20% for the year. Target Corp. (NYSE: TGT) rounded out the top three, declining 12% for the year. Yahoo Inc. (NASDAQ: YHOO) was down 9% in 2007.

For now, watch my blog for updates on The Innovation Index, the Top 20 Innovators in action, and their Disruptors in hot pursuit.

2008 Predictions

How will The Innovation Index perform in 2008? So far, the Innovators have been off to a rough start in 2008. The sub-prime mortgage crisis, rising oil prices, and early indications of slowing economy have contributed to negativity on the Wall Street. We believe this sentiment is short-lived, and will only last through the second quarter of 2008. The availability of an economic stimulus package from the government and the Federal Reserve will certainly help. The resilient Innovators of The Innovation Index will reward the patient, long-term investor. The key is to stay with these Innovators through the downturn, and wait until later in the year to realize the positive gains.

The Innovation Index 2008 Performance

Top 20 Innovators	Ticker	31-Dec-07	31-Dec-08	% Change
3M Company	MMM	84.32	57.54	-31.76%
Amazon.com	AMZN	92.64	51.28	-44.65%
America Movil	AMX	61.39	30.99	-49.52%
Apple	AAPL	198.08	85.35	-56.91%
AT&T	T	41.16	28.50	-30.76%
Best Buy	BBY	52.51	28.11	-46.47%

Cisco Systems	CSCO	27.07	16.30	-39.79%
Costco Wholesale	COST	69.60	52.50	-24.57%
eBay	EBAY	33.19	13.96	-57.94%
General Electric	GE	36.74	16.20	-55.91%
Google	GOOG	691.48	307.65	-55.51%
Hewlett-Packard	HPQ	50.48	36.29	-28.11%
Intel	INTC	26.50	14.66	-44.68%
IBM	IBM	107.69	84.16	-21.85%
Merck	MRK	57.61	30.40	-47.23%
McDonald's	**MCD**	**58.51**	**62.19**	**6.29%**
Microsoft	MSFT	35.46	19.44	-45.18%
NIKE	NKE	64.00	51.00	-20.31%
Research In Motion	RIMM	113.40	40.58	-64.22%
Proctor & Gamble	PG	73.05	61.82	-15.37%
The Innovation Index		**108.27**	**66.35**	**-38.72%**
S&P 500	^GSPC	1,468.36	903.25	-38.49%
Dow Jones	^DJI	13,264.82	8,776.39	-33.84%
NASDAQ	^IXIC	2,652.28	1,577.03	-40.54%

McDonald's Corporation is the only innovator out of the top 20 innovators that had a positive stock performance in an otherwise tough 2008. McDonald's has achieved an amazing feat that will be cherished for a long time.

8 out of the Top 20 Innovators finished averaging better performance than the S&P 500.

Assumptions and Disclosures:
*Assumes equal investment in each Innovator of the Innovation Index
*Innovation Index Fund is closed and ended much lower than the Innovation Index

Innovation Index Fund

Innovation Index Group, led by Sanjay Dalal, systematically invested into the Innovation Index Fund.

Find out more about Innovation Index Group and Innovation Index Fund online at:
http://www.InnovationIndexGroup.com

Acknowledgements:

BusinessWeek along with the Boston Consulting Group surveyed and ranked the top 25 Innovative companies in the world for 2006 and 2005. I have compiled the initial list of the Top Innovators in North America for the past two years partly based on BusinessWeek's survey of over 1,000 senior executives in 63 countries, and my own research. This list only includes the North American companies that are publicly traded.

BusinessWeek: The World's Top 25 Most Innovative Companies
http://www.businessweek.com/magazine/content/06_17/b3981401.htm

*Past performance does not guarantee future results.

Chapter 3

Measuring Business Innovation Success

One question is largely unanswered: **What is the universal yardstick, the measurement for the success of a Business Innovation that companies and Innovation Gurus alike can possibly agree with?** I have read books and magazines by leading authors and CEOs on innovation, have been fascinated by the innovations that innovative companies have created, have observed some of the successes these innovations have produced for their founders and shareholders, have witnessed a few of the customer "WOW" moments as they have used some of these innovations, and have measured the impact of these innovations on the company's stock performance.

How does one measure business innovation success? Can it be measured by a qualitative measure that can somehow gauge the emotional and psychological impact the innovation produces on the users (the "AaHa" moments), or a quantitative measure corresponding to the total population of end users using the new innovation (and even helping co-create it), or a financial measure in terms of net new revenue generated for the company that can be attributed to the new innovation? An innovation is only successful if the product or service is able to find and attract new customers who adopt and adapt to it, live by it, talk about it, and refer others to it; ultimately, the innovation must result in substantial new business for the company.

What are some examples of successful innovations? iMac, iPod/iTunes by Apple, Music by Amazon.com, PayPal by eBay, All-in-One Printers by HP, Business laptops by Dell, Penryn microprocessors by Intel, Medical Imaging and Jet Engines by GE, Mr. Clean by P&G, Starbucks Coffee Card by Starbucks, High definition television business at Costco and Best Buy, Coffee and Iced Coffee by McDonald's, Apparel business by Nike, Xbox and Xbox 360 by Microsoft, Blackberry Curve by Research In Motion, AdWords by Google, TelePresence by Cisco, Microprocessors powering Nintendo Wii and other game consoles by IBM, Hybrid cars by Toyota, Mini car by BMW, Saturn by GM, and many more.

We have many examples of hyped-up innovations that have failed after launch - Motorola's satellite phone foray aka Project Iridium (although Motorola came back with a bang with Moto Razr cell phone), General Motors' Electric concept car (which is being reborn for a new launch), and Microsoft's MSN Search (which has been reborn into Live Search). One thing is certain: Top Innovators do not stop innovating on account of failed innovations. Rather, failure is part and parcel of their creativity and innovation initiatives, and many a times, failure is a good thing. True Innovators find a way to learn from their failed experiments, and come out stronger. GE CEO Jeff Immelt agrees with P&G CEO A.G. Lafley on the core principles that drive growth and innovation. He states: "It's important to make growth a process...Just like A.G (Lafley), I want a pipeline of innovation. Some projects will fail. But the goal for a company like ours or P&G is using size as an advantage. Most people just assume that big companies are slow and lethargic, and only a small company can grow. But if you get good processes, you can make size an advantage."

Before I present my yardstick for measuring innovation success, I would like to **establish a baseline**. For instance, I am going to assume that an Innovator must have revenue of at least $500 million. The Innovator must be in existence for at least five years, and the $500 million revenue it generates must be based on products or services that the innovator has created itself. In addition, the Innovator should be showing consistent annual growth in total revenue and net earnings for the previous three years, and deliver at least 15% of the total revenue from products introduced within the past five years.

Business Innovation Success Measurement

An Innovation that produces at least 5% of company's total revenue (up to equal margins) within three years after commercial launch, and grows to at least 15% of company's total revenue (with equal or better margins) within eight years of commercial launch is 100% successful. If an Innovation achieves the target revenues within a shorter time, or over-achieves the target revenues within the given time, Innovation success rate is considered greater than 100%. On the other hand, if an Innovation misses the targets of either time or revenue, it would be considered less than 100% successful.

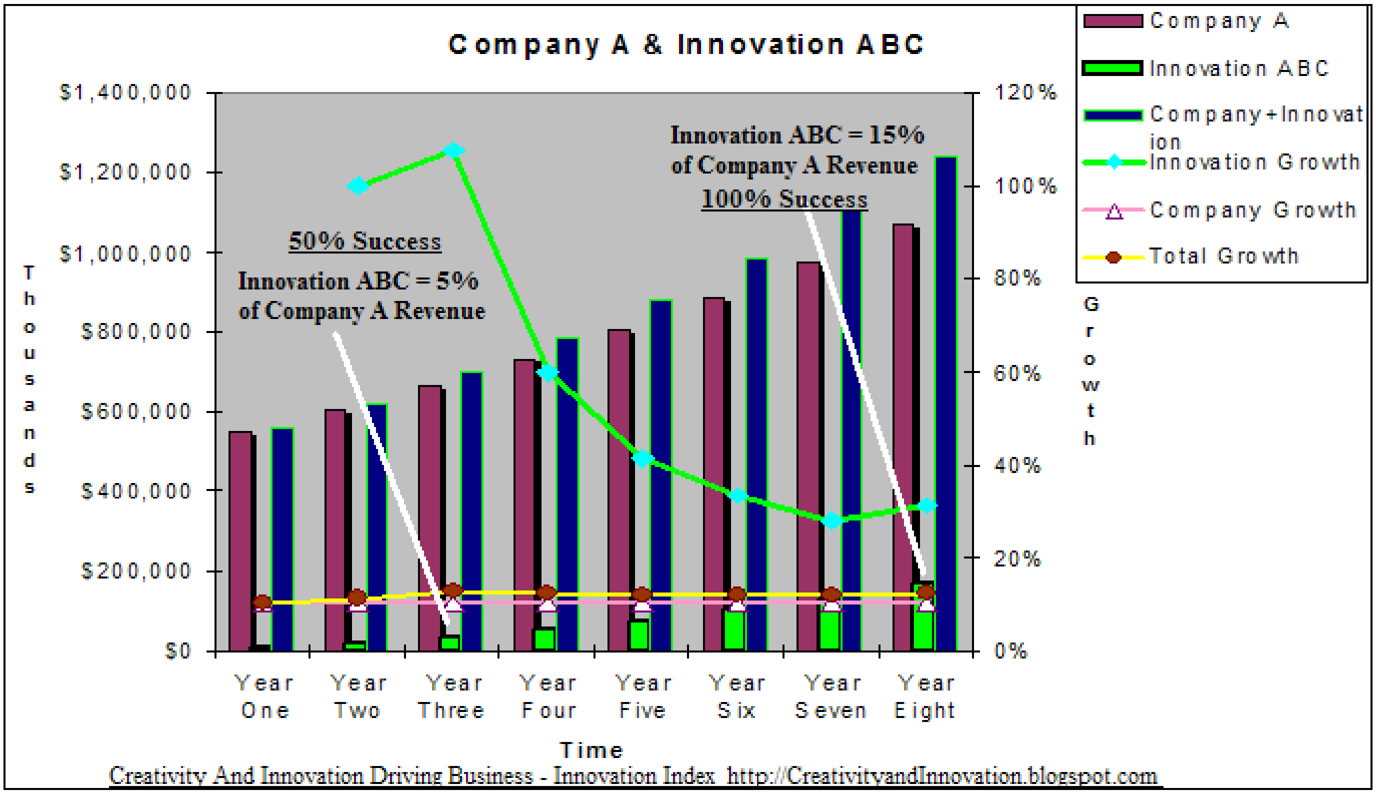
Company A	At least $500 million annual revenue
Innovation ABC Launch	
Time	Within **3 years** from Launch
Innovation Revenue	At least **5%** of company annual revenue
Innovation Margins	Close to equal margins
FIRST MILESTONE REACHED	Innovation ABC **50%** Successful
CONTINUE / EXPAND	Innovation ABC Funding
Time	Within **8 years** from Launch
Innovation Revenue	At least **15%** of company annual revenue
Innovation Margins	Equal or better margins
SECOND MILESTONE REACHED	Innovation ABC **100%** Successful
FUND NEW INITIATIVES	

Here are a few hypothetical examples:

*All revenues in thousands

	Year One	Year Two	Year Three	Year Four	Year Five	Year Six	Year Seven	Year Eight
Company A	$550,000	$605,000	$665,500	$732,050	$805,255	$885,781	$974,359	$1,071,794
Innovation ABC	$8,000	$16,000	$33,200	$53,000	$75,000	$100,000	$128,000	$168,000
Company+Innovation	$558,000	$621,000	$698,700	$785,050	$880,255	$985,781	$1,102,359	$1,239,794
Innovation ABC Growth		100%	108%	60%	42%	33%	28%	31%
Company Growth	10%	10%	10%	10%	10%	10%	10%	10%
Total Growth	10%	11%	13%	12%	12%	12%	12%	12%

Company A has $500 million in annual revenue, and is growing at an annual growth of 10%. Company A launches Innovation ABC. Innovation ABC must produce at least 5% of $665 million (Company A's revenue compounded at 10% annual growth in three years) within three years or new sales of $33.2 million, and at least 15% of $1.072 billion within eight years or at least $160 million in new sales to be 100% successful. For instance, Innovation ABC can produce $8 million in first year, $16 million in year two, $33.2 million in third year, $53 million in year four, $75 million in year five, $100 million in year six, $128 million in year seven, and $168 million in year eight. Average Compounded Annual Growth Rate from Innovation ABC is just over 40%. The new innovation ABC has effectively increased the company's annual growth rate to about 12%, or a net increase of about 2%.

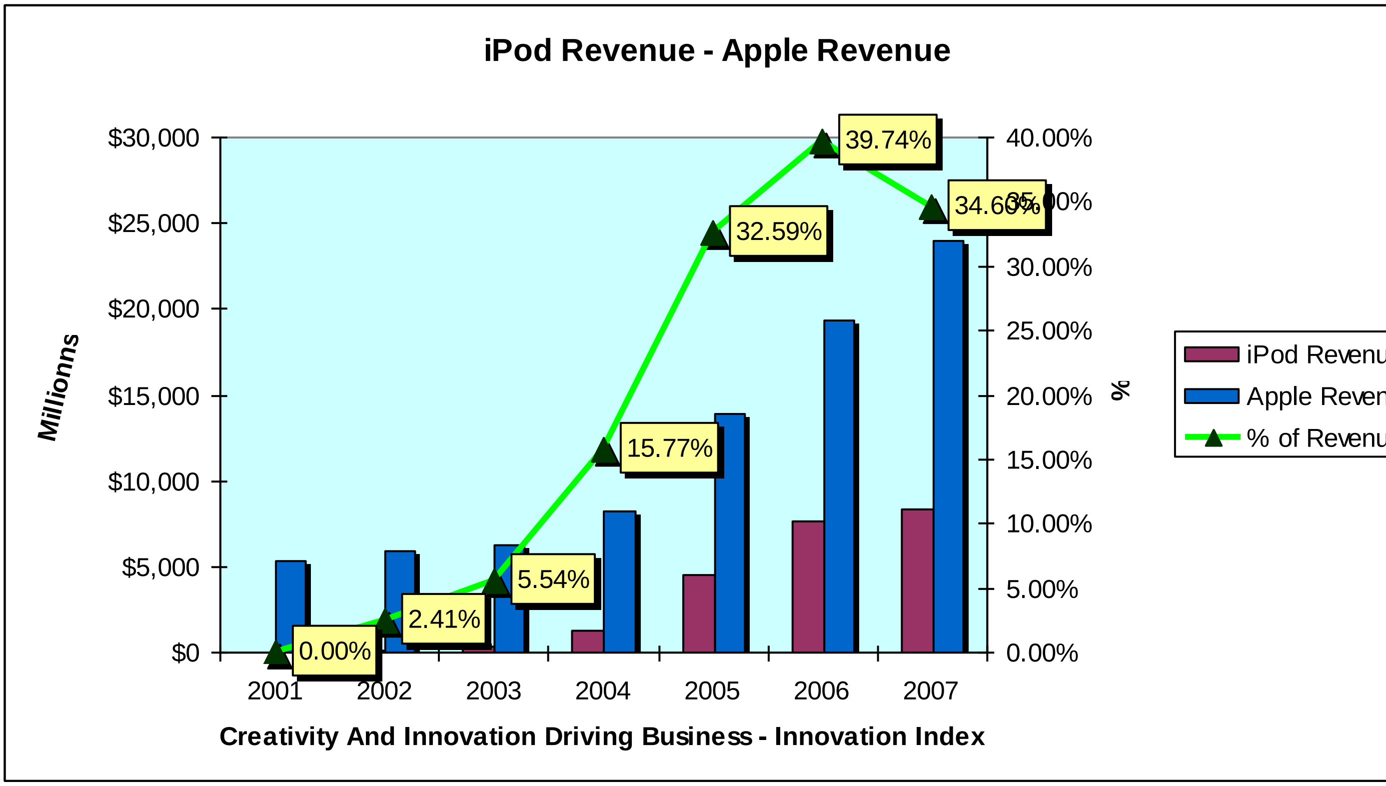


Company E has $100 billion in annual revenue, and is growing at an annual rate of 6%. Company E launches Innovation MNO. Innovation MNO must produce at least 5% of $119.10 billion (Company E's revenue compounded at 6% annual growth in three years) within three years or new sales of $5.96 billion, and at least 15% of $159.38 billion within eight years or $23.9 billion in new sales to be 100% successful. Thus, company E's total revenue at the end of year eight would be $159.38 billion + $23.9 billion = $183.28 billion. The new innovation MNO has effectively increased the company's annual growth rate to 7.9%, an increase of about 1.9%.

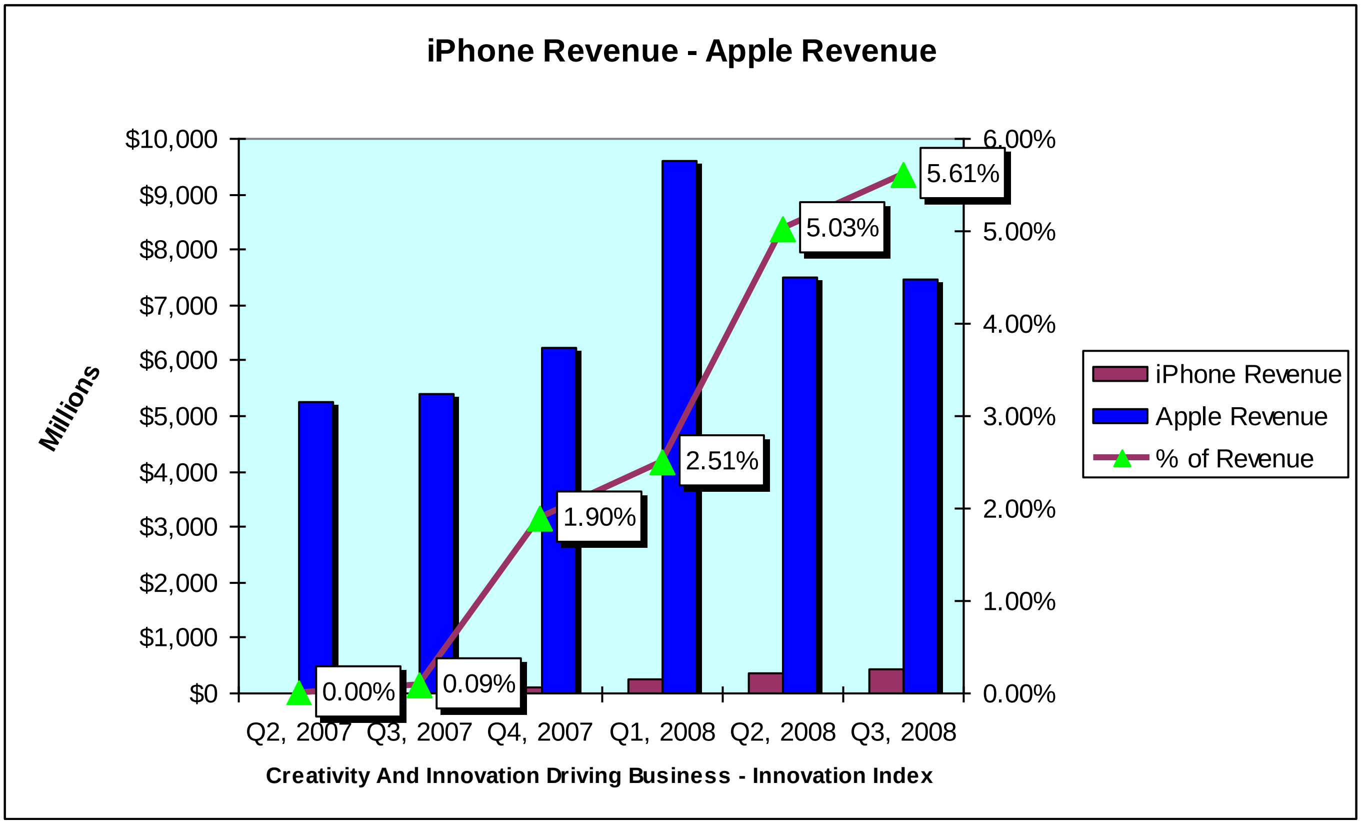
Here is a real example of successful innovation:

Apple introduced Apple iPod in 2001. Apple iPod business generated total revenue of $537 million in Q4, 2004 (three years from launch), and was already 22.8% of Apple's total revenue of $2.35 billion in Q4, 2004 (easily eclipsing the 5% mark - although electronics and computer segments do show higher average percent revenue from new products - check Figure 1 below). Apple iPod business generated total revenue of $1.82 billion in Q2, 2008, (within seven years from launch), about 24.2 % of Apple's total revenue of $7.5 billion in Q2, 2008 (well ahead of the 15% threshold). Apple iPod business has consistent or better margins than Apple's hardware businesses. As a matter of fact, iPod saved Apple and made Apple successful again. iPod delivered 5.5% of total

Apple revenue in 2003, within the first three years of launch, and delivered 34.6% of total Apple revenue in 2007, within the first seven years of launch.



What about the newly launched iPhone from Apple? Is iPhone equally successful as iPod, or better? iPhone is off to a fast start. In the latest quarter, iPhone innovation produced net revenue of $419 million, or 5.61% of Apple's total revenue of $7.4 billion. This is staggering, since iPhone was only introduced one year ago. It took iPod more than two years to achieve the 5% mark; iPhone achieved this mark in just one year. If iPhone continues the momentum, it could achieve the 15% mark before end of 2009.



Some Questions and Answers:

Question 1: Why I chose 5% of company's total revenue as the initial threshold for innovation success?

Most CEOs and CFOs of large innovative companies use 5% of total revenue as a benchmark to test the success of new products or services. Check Figure 1. and Figure 2. under references. In a particular industry, the initial milestone can be less than 5%. The key is to remain consistent.

Question 2: Why I chose three years from commercial launch as the initial milestone/threshold for innovation success?

Most marketing plans for new products or services involve a three-year lifecycle for measuring the initial success, with various milestones along the way. A particular industry may measure this milestone within two years or even four years.

Question 3: Why I chose 15% of company's total revenue as the final threshold for innovation success?

Average percent of revenue from new products or services across all industries in one year is 15.72%. Check Figure 1. and 2. below. Average of Median percent of revenue from new products or services across all industries in one year is 11.3%. Thus, for companies to be reasonably successful, they need to deliver 15% of total revenue from new products or services. In a particular industry, the final milestone can be higher – for example, in Computers industry, 34.5% of total revenue is derived from new products.

Question 4: Why I chose eight years from commercial launch as the final threshold for innovation success?

Most new companies, products or services that make it beyond the first year, and are successful beyond the third year typically reach their highest market penetration in years six through ten. Eight years is mid-point. Many companies may achieve this success within eight years.

Question 5: Why I measure the new revenue from innovation success as a percentage of company's compounded annual revenue?

This provides a more realistic measure. Innovative companies are always growing, and hence it makes sense to equate an Innovation's new revenue to the current revenue of the company.

Question 6: Why should an Innovation have equal or better margins?

Sometimes an innovation can produce high revenue, but can end up costing the company more money to produce. In this scenario, company ends up losing money, or does not show a growth in net earnings owing to the high costs of producing the innovation. While the Innovation is growing to the initial 5% of company's total revenue, the company can fine-tune the margins. However, as the contribution of the Innovation increases beyond 5%, it is imperative that the margins are equal or better than company's current operating margins. An Innovation needs to be both profit and revenue producing to be truly successful.

Question 7: We do not measure our innovation success by net revenue contribution, rather by customer adoption and loyalty, or another quality measure.

A similar metric may be established to gauge the initial milestone of success – say 5% increase in customer loyalty, or 5% increase in product quality within three years from launch of the new initiative, and 15% increase within eight years. The objective is to stay consistent.

Bottomline:

An Innovation that produces at least 5% of company's total revenue (up to equal margins) within three years after commercial launch, and grows to at least 15% of company's total revenue (with equal or better margins) within eight years of commercial launch is 100% successful.

References:

Apple press releases / SEC filings / Wikipedia

Figure 1.--Average percent of annual revenue from new products in one year by selected industries.

	Number of companies reporting	% of Annual Revenue
Chemicals and Applied Material	50-55	4.5%
Aerospace and Defense	55-60	8.3%
Medical Equipment and Devices	85-90	9.8%
Semi-conductors	100-105	13.7%
Telecom Services	20-25	16.0%
Electronic Equipment	75-80	19.2%
Telecom Equipment	125-130	19.8%
Computers	55-60	34.5%
All Industries Average		15.72%

Note: Table made from bar graph

Figure 2.--Median percent of revenue from new products in one year by selected industries.

	Number of companies reporting	% of Annual Revenue
Chemicals and Applied Material	50-55	3.2%
Aerospace and Defense	55-60	3.3%
Medical Equipment and Devices	85-90	7.4%
Semi-conductors	100-105	10.1%
Telecom Services	20-25	10.3%

Electronic Equipment	75-80	12.9%
Telecom Equipment	125-130	13.7%
Computers	55-60	29.5%
All Industries Median Average		11.3%

Note: Table made from bar graph.

Source for the above two tables: Measuring innovation: beyond revenue from new products: a synthesis of two common measures of innovation yields insight into both the pattern of new product churn and the pattern of corporate renewal. Research-Technology Management Nov-Dec, 2006

Chapter 4

Failures And Stumbles Driving Innovation

"Failure is our most important product." R W Johnson, Jr., Former CEO, Johnson & Johnson, 1954

"Our company has, indeed, stumbled onto some of its new products. But never forget that you can only stumble if you're moving." Richard P. Carlton, Former CEO, 3M Corporation, 1950

Great wisdom shared by two great business leaders.

"Purposeful Accidents"

Jim Collins and Jerry I. Porras, authors of the bestseller "Built to Last", discuss the role of Creativity and Innovation that drives some of the successful habits of Visionary companies. They observe that "some of their (visionary companies) best moves were not by detailed strategic planning, but rather by experimentation, trial and error, opportunism, and--quite literally--accident." But they were no ordinary accidents. Rather "purposeful accidents" according to the authors.

Opportunistic or Planned Innovations

The authors give several examples of visionary companies including Johnson & Johnson's accidental move into Consumer Products with discovery of "Johnson's Toilet and Baby Powder" and "Band-Aid", Marriot's opportunistic step into Airport Services from providing meals in the airports to inside the airplanes, American Express's unintended evolution into Financial and Travel Services with the introduction of "American Express Travelers Cheque" and then Tourism and Travel, HP's unplanned move into computer business (when it designed its first small computer simply to add power to its line of instruments products) and more. These innovations were neither aberrations, nor they represented random luck--the authors discovered there was more to these innovations than what appeared on the surface--something bigger at work.

Darwin and the Evolutionary Progress

The authors label this type of progress by visionary companies as "evolutionary progress". Because evolutionary progress is unplanned progress, beginning with "small incremental steps or mutations, often in the form of quickly seizing unexpected opportunities that eventually grow into major--and often unanticipated--strategic shifts."

Authors believe this is comparable to Darwin's theory of Evolution--species evolving by a process of undirected variation and natural selection--the survival of the fittest. Of course the difference with visionary companies being that there is a plan in place that stimulates these experiments and variations, and ultimately creates the meaningful inventions.

Johnson and Johnson - Failures to Innovations

Johnson & Johnson, one of the visionary companies in the book, has never in its 107-year history, posted a loss. It has had many failed ventures such as a foray into Kola stimulants, colored casts for children, heart valves, kidney dialysis, and ibuprofen pain relievers - the list is quite big. The failures result at J & J from the fact that the company emphasizes placing bets on many potential opportunities--most opportunities possibly fail, but the ones that do succeed, they succeed big. The bets, or the experimentation, are an essential price to pay for successful Innovation and Long-term growth. At General Electric, Jack Welch the then CEO, called this "planful opportunism"--directing a business by setting only a few clear, overarching goals and letting the people seize any opportunities they saw to further these goals.

3M - Accidents to Innovation Machine

What about 3M, quite possibly the most innovative company of our times that even CEOs of other visionary companies admire? 3M is best known for its household brands such as Post-It note, Masking tape, Scotch tape, and many more. 3M initially failed in its mining business, and eventually stumbled onto most of the successful innovations that we know 3M for, including Post-It, Masking and Scotch tape. According to the authors, "Although the invention of the Post-it note might have been somewhat accidental, the creation of the 3M environment that allowed it was anything but an accident." 3M institutionalized such mechanisms to drive Innovation as the "15 percent rule" - technical people spend up to 15 percent of their time on projects of their own choosing or initiative, "25 percent rule" - each division should produce 25 percent of annual sales from new products and services introduced in the previous five years, "Golden Step" award - given to those creating successful new business ventures originated within 3M. More mechanisms were created to stimulate internal entrepreneurship, test new ideas, create unplanned experimentation, share new ideas, develop new innovation, cross-fertilize technology, ideas and innovation, stimulate innovation via customer problems, speed product development and market introduction cycles, provide profit sharing, and promote "a small company within a big company feel" by creating small autonomous business units and product divisions - in early 1990 3M had over sixty thousand products and over forty separate product divisions.

Norton - Lessons Learned

The authors argue that whereas 3M created the mechanisms and management practices to encourage individual initiatives and experimentation, Norton was the exact opposite. 3M took the approach of "try a lot of stuff and keep what works", whereas Norton was centralized, bureaucratic and stagnant. Not only that, the authors discovered that Norton had explicit policies discouraging entrepreneurship; there were no incentives for creativity and towards looking outside for new opportunities beyond the traditional products and businesses. Norton emphasized too much planning from the top down, and made it a way of life. Norton eventually tried to innovate and expand with acquisitions, but it was too little, too late. Norton, a company that at one time was ten times the size of 3M, ceased to exist (was acquired on its way down in the nineties).

Five takeaways stimulating Innovation

The authors summarize their findings from 3M and provide five takeaways to drive Innovation at any business:

1. "Give it a try--and quick!" - Essentially echoing on having a process to try out a lot of stuff, and keeping what really works. The key here is to do something. Keep on trying something new.

2. "Accept that mistakes will be made." - Learn from the mistakes quickly, and move on. Failures are part and parcel of what creates new innovation. Don't repeat the same mistakes.

3. "Take small steps." - Experiment, but on a small scale. When something looks promising, go all out and seize the opportunity. This way one can do plenty of inexpensive experiments that create a funnel of would-be innovations.

4. "Give people the room they need." - Without entrepreneurship, there is no experiment. Without experiment there is no success or failure. People need some time and room to experiment.

5. "Mechanisms - build that ticking clock!" - How do you harness creativity and build innovation? It cannot happen simply by chance. Companies need to create practices and tangible mechanisms to experiment, try out new ideas and innovate.

Acknowledgements:

Jim Collins and Jerry I. Porras - Built to Last - Successful Habits of Visionary Companies

Chapter 5

Blocking Creativity And Innovation

Is your organization Blocking or Stifling Creativity? How do you harness Creativity and produce new Innovation in your organization?

As organizations grow, they setup structures that inherently block creativity.

Systems and Processes

Have your heard of organizational efficiency? Bottomline? Operational excellence? Larger organizations setup systems and processes to become leaner and more efficient, and become focused internally. However, when the systems and processes become an end goal, creativity that drives new innovations and competitive spirit becomes non-existent over a period of time. Hence, organizations must build new processes such as identifying and isolating key creative teams from the rest of the organizations, and stimulating them towards driving innovation.

Reward and Recognition Systems

Who do you reward and recognize at your organization? The operational excellence team, the sales team or the innovation team? Do you even have rewards and recognition systems in place? If you are frequently associated with rewarding behaviors like "going with the flow" and where behaviors like "questioning status quo" are ignored or even reprimanded, creativity will suffer. In order to create the best creative output from employees and teams, organizations must put formal rewards and recognition systems for the innovators and creativity contributors. Recognition and rewards could be in the form of a company-wide announcement of the contributions of your most innovative employees, press releases recognizing and introducing their innovations, providing the innovators paid vacations and combining them with trade shows where they can meet customers, salary bonuses, and more.

Organizational Culture

What stories do you hear in the cafeteria? Are the stories about the next big innovation that someone is working on, a new marketing campaign that is creating great returns or a product that was launched last year and became hugely successful? Or are the stories (or lack thereof) about improving profit margins, increasing productivity and becoming an efficient organization? An organization's culture is built on stories and legends. How many of these stories are known and recognized by the external world? An organization where creativity was not celebrated historically rarely has a vibrant creative environment.

However, organizations where most talked about stories revolve around creativity, inspire others to follow suit, building a culture of creativity.

Creative ideas must make business sense. For instance, asking questions on whether you have the means to convert an idea into innovation, the associated costs of doing this, how many customers will use this new innovation, and the revenue potential. Most successful organizations achieve a balance between creativity and operational excellence.

Nine Processes

Here are nine processes that you can create at your organization to **unblock Creativity and drive Innovation**:

- Open communication within and between departments, and across all management layers.
- Hiring of people with diverse backgrounds and experience, and avoiding "cloning."
- Encouraging employees to find new ways to do their daily work, and empowering them to make decisions.
- Creating an organization that extends out to customers, suppliers, partners, and environment.
- Stimulating research activities and providing employees some free time to experiment.
- Allowing employees to take measured risks (with small costs), and seizing opportunities.
- Creating processes to evaluate any idea on merit, regardless of where it is coming from.
- Identifying and separating the creative from operational functions in the organization.
- Using group creativity techniques frequently to promote team building and generate new ideas.

Acknowledgements:

eCornell. Leading through Creativity
http://www.ecornell.com/catalog/sm/lsm507.jsp

Chapter 6

Six Ways To Find Innovation

How do you find Innovation? Can you find innovation blind-folded or using the same lens? Can you even look for Innovation? Or it just happens.

Innovation is coupled in some ways to imagination where every time you see something, you open your eyes to endless possibilities. Literally. According to *Chuck Palus* and *David Horth*, authors of *The Leader's Edge: Six Creative Competencies for Navigating Complex Challenges*, you need to "**see with new eyes**" in order to find innovation. We had discussed earlier on how leadership can drive innovation inside your business. We naturally fall into a habit of looking at things around us with the same eyes, analyzing it with the same logic and creating the same perceptions. It is easy to get used to this routine. Most managers act the same way. According to the authors, most managers "*act on what they expect to see*", take shortcuts, do not spend enough time analyzing information and making a sound judgment. It's as if the managers are walking around blind-folded since they have already created built-in perceptions of what they see.

Why is this so? We are after all living in the world of action. People get rewarded to get things done fast. And managers are no different. According to the authors, *managers spend ninety percent of their time solving the problem, and only ten percent thinking about it*. There is too much focus on getting the problem resolved quickly and moving on to the next problem. Perhaps this happens because of the sheer pace of work, multiple competing projects, approaching deadlines, and focus on quarterly results. The result: the problems are half-solved or worse yet, wrongly solved. The authors assert that "Complex problems — even really wicked ones — often begin to crack and shift when you spend more of your time looking at the problem."

What does all this have to do with Innovation?

Palus and Horth believe that Innovation happens when you begin slowing down (what did you say?), and when you put the brakes on the way you normally see and perceive, analyze and understand.

Here are the **Six Ways to Find Innovation**:

Stand in different places

Switch roles. This is the only way to learn and understand what is out there or in there. If you are the manager, become an employee. If you are in Sales, become a customer. If you are the product manager, become the product or the user. Try to adapt the mindset of who you want to do business with. Change your perspective. This bit of role playing will allow you to find new innovative ways to look at the same problem, and find a solution that you never thought existed before.

Use the lenses of other domains

Are you selling high tech gear? Well what if your buyer was shopping for groceries? How would you sell to that buyer? Are you looking to create that next big innovation in chemistry? What if you were to use this innovation in sports? Learn about something other than your domain knowledge. Try to apply this knowledge to your problem. Say you are trying to market an application to the CEO of a company, and are not able to determine the appropriate message, the punch line. What if a Kid were to buy your product? How would you explain to the Kid? The key is to use a different lens outside your domain and arrive at a solution. If you don't know how to use a different lens, find someone in the company who can. Or create a group to do this.

Ask powerful questions

Questions are not just for the devil's advocate and to create doubts. There is no such thing as a silly question. Question everything about what you are trying to accomplish. Start with why, what, how, when, what if, so what, where and so on. Ask broader or narrower Questions. Ask the question of a metaphor. Ask opposite questions and inside-out Questions. Ask precedence and consequence Questions. Ask ridiculous questions, and don't forget to ask the "Real" question. Ask about object rules and action rules (Shank). Question the merits and even ask how you can make the innovation worse or fail. The more questions you ask and the more answers you try to find, the more innovative ways you would come across in trying to find a way to create a new product or solve a problem.

Foster new knowledge

New knowledge not only comes from your own domain, but when you are out there doing something else. Go attend a trade show of an unrelated business. This will open up your mind to how businesses are creating products for other markets. You may find an application of this in your market. Spend a week with your customer. Understand the problems your customer faces on a day to day basis; not just for your product, but everywhere else. Gain new insights on how your customer does their business with their customers. Check out what your key competitor is doing outside their place of business, what they are doing to promote and market their products. Do Offsites with your creative teams, and focus on learning something totally unrelated to what you are doing. Use the Offsites to create some group thought. The creative team should spend time in new places to gain new viewpoints, and which in turn will generate new ideas.

Create a visual verbal journal

A picture says a thousand words. A journal to put down your thoughts visually will allow you to think about your ideas from various angles, and create clarity of thought. Wherever possible, doodle. Do drawings of processes, tasks, relationships. Connect the dots or let them flow from one to another. Create a habit to write down key ideas, however unrelated, and try to associate these with real world scenarios. Create more pictures (don't worry about whether they are pieces of art). Imagine the customer you are trying to sell visually. What would be they thinking out loud or saying out loud? Write short catchy phrases describing their actions and thoughts. At times you may be going on different tangents from your visual thoughts, but it is possible that one of the new tangents holds that all important idea to generate new innovation. And at times, the visuals may create even further complexity. Perhaps it is best to let go of that visual, and start a new one. Wherever possible, try to associate visuals with concise thoughts or ideas.

Change the pace of attention

How do you lead groups to find and create innovation? The key is to slow them down and try to get the group to focus on a few key ideas initially. Try to brainstorm on these ideas using creativity techniques such as free association, locksmiths, SCAMPER, or Question Breakdown. Ask the group to bring their own ideas, however silly they may appear on the surface, and evaluate each idea and brainstorm. Give rankings to each idea by having everyone vote. If the group is pressed for time, and is moving fast through the thought process, make it a practice of slowing them down. Ask more questions. Try to change the topic to have the group momentarily think of something else. Bring them back. Try to rephrase what you are trying to do. What you are trying to create is that moment of intuition or magic moment wherein group members can come up with an idea that everyone says "wow, let us explore that." Use group forums or N-Gates to channel the group creativity into a new idea or innovation.

Are you ready to find innovation inside your business? Remember to slow things down, view the world with a set of new eyes, follow the six steps above, and unblock creativity and innovation within your organization.

Acknowledgements:

CCL – Center for Creative Leadership. CCL e-Newsletter, October 2006: Needed: A New Way to See.
http://www.ccl.org/leadership/enewsletter/2006/OCTissue.aspx?pageId=1790

Leading Creatively: Acting Sensibly and Meaningfully in a Complex World by Charles J. Palus and David M. Horth (CCL & Jossey-Bass, August 2001).

Chapter 7

Five Principles For Successful Innovation

My observation and analysis on how the Top 20 Innovators of The Innovation Index drive Innovation led me to summarize the following five principles for successful innovation:

The Five Principles for Successful Innovation

Successful business innovations that drive growth and new business are guided by the following five principles:

1. Vision to create new products, business models or processes that make a difference and create new markets.

From the CEO of the company to the CFO, the product manager to the VP of Sales, the company needs a strong vision and mission to create great new products and services. Everyone in the business should be aligned to this vision and mission. Is this product an evolutionary innovation or revolutionary? Is this going to create a completely new business for the company, or incremental revenue? Finally, is the product cannibalizing any existing product's revenue and customer base. The CEO and his team need to be creative leaders in order to unblock creativity and catapult innovation.

2. Systematic processes and rigor that stimulate creativity and learning to execute on the vision

Is innovation a one-off event in the company, or repeatable and scalable? What processes harness constant innovative output and stimulate creativity? How do you create ideas, test ideas and convert ideas into innovations? What percentage of time and budget do you provide the team and individuals to experiment? How do you manage creativity so that it is channeled into real products? What processes does the company have and resources that company provides to convert skunk works into shipping products? Is failure rewarded or chastised? Is the business a learning organization that learns from mistakes and course corrects? What were the past successes? How did company achieve these and is there an institutional memory? Is there a business plan for generating new ideas and creating a business around these? And is it realistic?

3. Focus on clear and present customer needs, the market facts, and the intangible

Customer is king! But customer does not always have the answer. Can the new product show customer a better way to do business? What customer need does it serve? Is it an unfulfilled need? How big is this need? Does it refine a business process or completely overhauls it? What is the market saying? Is the price point affordable? Is the customer going to have the WOW moment when they use the product? Does the product become a daily part of the customer's life or work? Uncovering the intangible requires the best of both worlds – the process to think from the mindset of the customer, and the ingenuity to make something that the customer will absolutely crave for.

4. Growth-oriented leadership with passionate team that is decisive, inclusive, focused, takes risks, and has market expertise

Who would you trust to make this innovation happen? A leader who has the market expertise or a genius? An entrepreneur or a seasoned veteran? A designer who has designed a dozen successful automobiles, or a manager who understands what it takes to create that new car within the constraints? A leader needs to drive his or her team. And you need a passionate, highly innovative team to make things happen. There is no right or wrong answer here as to which leader to choose. Ultimately, the company needs to make a clear decision based on the current need, past history, and the potential. Can you create an innovation machine or innovation factory with the right leader and the right team?

5. Reward and recognition system for teams that take measured risks and experiment

Experiment. Repeat. Experiment. Repeat. Experiment. Repeat. Success. Do you have the wherewithal and patience to promote rapid experimentation? Do you reward your creative employees and leaders? How do you recognize them? How about promoting team innovation? Do you have a way to measure risk and impact change? Risk versus reward resonates when you are trying to create new innovations. The company's ability to manage risk and yet provide room to experiment without impacting the bottomline is the key.

Which businesses are driving their innovations using the above five principles?

3M, Apple, Amazon.com, AT&T, Best Buy, Cisco Systems, Costco, Dell, eBay, GE, Google, HP, IBM, Intel, Microsoft, Merck, McDonald's, Nike, Proctor & Gamble, Research In Motion and Southwest Airlines are the Innovators who drive their creativity and innovation and produce successful growth year after year.

Chapter 8

Is Innovation Cyclical?

Cycles of Innovation

Thomas A. Stewart, editor of Harvard Business Review, and Rosabeth Moss Kanter, professor of Harvard Business School, declare that innovation is cyclical at most companies in "*The Great Wheel of Innovation*" and "*Innovation: The Classic Traps*." As a matter of fact Kanter asserts that "*innovation gets rediscovered as a growth enabler every half dozen years*." Can companies afford an innovation cycle that repeats every six years? We know from such great innovators as 3M, Apple, and Toyota that innovation is not a one-off experiment, rather a sustainable process that must be always on. Why then companies often fail to sustain innovation?

Cause And Effect

What causes the cycle of innovation? Stewart talks about the erosion of "*institutional memory*" as one of the primary drivers of the innovation cycle. Erosion happens due to change in labor markets, 20% voluntary turnovers and intra-company movement of individuals and associated memories. The key challenge companies have is creating processes in place to preserve the memories, the knowledge acquired, the insights gained on not only what worked well in the past, but also what did not work well, so that mistakes are not repeated on planned innovations. When companies push to find new ways, old mistakes repeat, thereby creating the long cycle of innovation. Stewart refers this as the great *paradox of innovation* - it's not about creating new innovations, rather repeatable processes that define how to create innovations.

Avoiding The Innovation Cycle

Kanter stresses that grand declarations of innovation are often followed by mediocre execution that produces anemic results. Kanter echoes on "four major waves of innovation enthusiasm" she's observed, and describes the four "classic mistakes companies make in innovation strategy, process, structure, and skills assessment." These four mistakes need to be overcome if companies want to maintain their innovative output and become lasting companies. We had earlier talked about six ways to find innovation, and processes to unblock creativity and innovation. Some of Kanter's proposed views draw similar insights.

Common Innovation Blunders

Kanter gives many real world examples of common blunders that companies make as they try to build new innovations:

1. "A typical strategic blunder is when managers set their hurdles too high or limit the scope of their innovation efforts." Case in point: Quaker Oats was making minor tweaks to its product formulas in the 1990s that it missed larger opportunities in distribution.
2. "When managers strangle innovation efforts with the same rigid planning, budgeting, and reviewing approaches they use in their existing businesses--thereby discouraging people from adapting as circumstances warrant." When a company builds too many systems and processes to create efficiencies, innovation suffers.
3. "Companies must be careful how they structure fledgling entities alongside existing ones to avoid a clash of cultures and agendas." Another example Kanter provides is when Arrow Electronics tried to create an online venture.
4. "Companies commonly undervalue and underinvest in the human side of innovation--for instance, promoting individuals out of innovation teams long before their efforts can pay off." Again, we had discussed a lack of reward and recognition system for innovators in particular.

Innovation At Your Business

What are your views on creativity and innovation at your business? Do you have defined processes in place to create sustainable innovations? For instance, top innovators such as Google who "allow their brightest minds time to experiment" while keeping a tremendous focus on "simplicity and the customer," and Proctor and Gamble, whose "connect and develop model calls for 50% of products to come from outside" and where "design and innovation execs are part of the org chart." Share your insights on whether innovation is cyclical at your business.

Acknowledgements:

Harvard Business Review
http://harvardbusinessonline.hbsp.harvard.edu/hbrsa/en/issue/0611/article/FromTheEditor.jhtml
BusinessWeek
http://www.businessweek.com/magazine/content/06_17/b3981401.htm

Chapter 9

Can Leadership Create Innovation?

In a story on "Connecting the Dots between Innovation and Leadership" published by Knowledge@Wharton, Wharton management professor Michael Useem asked an important question at the roundtable: "How are Innovation and Leadership linked?", "How do we lead in a way that generates Innovation?" The panelists were asked to describe a single factor that is critical to innovation.

Here were the ten answers by the panelists on what drives Innovation at their companies:

1. Marketing

According to C. Robert Henrikson, chairman and CEO of global insurer MetLife, the focus is on marketing. According to Henrikson, Innovation happens because of true marketing, not merely sales support; for example, executives beyond the sales team, such as lawyers and financial officers, need to meet with customers regularly. "All parts of the organization must have a sense of the customers' business to anticipate their needs and reach out with innovative ideas," he said. Henrikson observed that most insurance companies have no marketing and are simply followers of innovation established by competitors. He further emphasized that: "I can't wake up and say, 'It's good to be a fast follower.' You have to get out in front of consumer behavior. That is what will be the differentiator in our industry."

2. Size

Alex Gorsky, head of Pharma North America and CEO of Novartis North America, indicated that "It's really important not to confuse size with true innovation. Research shows big is not necessarily better." Gorsky noted that all the mergers have made drug companies big in size, but not big on innovation. Rather, the smaller biotech companies or divisions are causing real innovations according to Gorsky.

3. Culture

According to Seth Waugh, CEO of Deutsche Bank Americas, culture is a critical factor in promoting innovation. Business leaders stimulate innovation by offering incentives to workers, creating an environment, and setting expectations. Waugh noted: "You must have people with that hunger to always learn, who are always open and who think about things in a different way. You always have to reinvent yourself tomorrow."

4. Technology

Retired partner and managing director at Goldman Sachs, Connie K. Duckworth talked about the important role of technology driving innovation. "The advent of desktop information technology transformed the financial services industry on Wall Street in the 1980s and 1990s," she noted. Duckworth observed that "new computer technology allowed companies to analyze the role of risk and to track risk in financial services, which changed the dynamics of the business."

5. Passion

Patricia Danzon, Wharton professor of health care systems and a consummate researcher on pharmaceutical industry mergers, identified passion as critical to innovation. Although passion is difficult to quantify, Danzon elaborated that passion may be linked to workers who have a stake in the business, either financially or in small firms where there is clear authority and little bureaucracy. Danzon stated, "So much innovation in the pharmaceutical industry is coming from the small firms ... and it seems to come from the passion and the involvement of being master of your own destiny."

6. Active Participation

Jeffrey Katz, CEO of Sherwood Equities, a New York City developer, and a major investor in Times Square, said business leaders must remain open and receptive to what comes their way in the form of new deals in order to capitalize on opportunities, and then seize these opportunities. He observed that "the marketplace, at least in New York, is extremely [fast-changing]. Unless you are sensitized and able to react right away, you will be reading about a deal next week rather than doing it."

7. Hard Work

Peter Linneman, Wharton finance professor and founding chairman of Wharton's real estate department, had a more real world perspective. He said there is no magic "Aha!" moment in most innovation. According to Linneman, "It's just all hard work -- showing up everyday in the morning, studying plans, walking around seeing what other people are doing. If you wait for 'eureka,' you are never going to have innovation."

8. Internal Development

Seth Waugh observed that it is preferable to create new businesses within the company first, because a homegrown enterprise is likely to fit better in the existing corporate culture. And he noted that this has the advantage of keeping the organization flat. Henrikson also believes in internal development as the passport to innovation. Henrickson emphasized, it’s talented managers -- not necessarily acquisitions -- that drive innovation. Katz is in the build-from-within camp. In order to grow, he encourages contrarian thinking. He noted that "if a developer waits to see what the crowd is doing, it's too late."

9. Targeted Acquisitions

Waugh believes that highly targeted "rifle-shot" acquisition, when an opportunity integrates well with the parent company's overall portfolio, is a strategic approach to stay ahead of the competition. Henrikson believes otherwise. Gorsky observes, "The area where it (acquisition) does make sense is in complementary technology with new technology partners." For example, Novartis' acquisition of Chiron Corp., a biotech firm with a specialty in vaccine development and production, as an example of an acquisition that fits well with Novartis' broader strengths.

10. Agility

Katz emphasizes the importance of agility to reshape development plans. He believes agility can create new ways of efficient and effective development that can span over months and years for completion.

Some of the panelists observed that leaders remain intently fixed on customers to uncover clues to innovation, realize and achieve the need for balance in quantitative skills and people skills, possess emotional intelligence and sensitivity to multi-cultural and multi-generational issues, demonstrate persistence in sticking with a goal although with flexibility, and execute on great ideas.

Acknowledgements:

"Connecting the Dots between Innovation and Leadership", Knowledge@Wharton.
http://knowledge.wharton.upenn.edu/article.cfm?articleid=1569

Chapter 10

Top Ten Creative Leadership Traits

Creative leaders continually meet new challenges, and recognize and pursue new opportunities through bold innovations.

What are the top ten characteristics and traits of Creative Leaders?

1. Ideas

Great at generating many ideas – innovative, game changing and even commonplace.

2. Experiment

Always looking to experiment with good ideas. Sometimes, trying out a few times.

3. Belief

Unwavering belief in their creativity and innovation, coupled with originality in thinking.

4. Self-image

Smart and bright with a positive self-image. More often, they are not born geniuses.

5. Passionate

Passionate, expressive and sensitive to their teams, colleagues and surroundings.

6. Superior Judgment

Demonstrate superior judgment, and do not make quick decisions (although have a gut feel).

7. Independent

Non-conformists and independent, requiring less social approval than most people.

8. Problem Solvers

Innate ability to understand and solve the problem, and manage the consequences.

9. Realist Dreamers

Born dreamers with strong imagination; however, manage to keep things in perspective.

10. Gamer Changers

Create and launch game changing products meeting a high level of quality and design.

Which creative leaders demonstrate these qualities among the top 20 Innovators of The Innovation Index?

Steve Jobs, co-founder and CEO of Apple, Inc., immediately comes to mind with market leading innovations including iPod, iMac and soon to be launched iPhone.

Larry Page and Sergey Brin, founders of Google, developed the innovative search technology that provides relevant answers which went on to become the world's largest search engine.

Jeff Bezos, founder and CEO of Amazon.com, made the world's largest online bookstore and the most popular online retail site.

Pierre Omidyar, founder and chairman of eBay, changed the face of Internet commerce in 1995 when he launched eBay which went on to become the world's largest marketplace.

A.G. Lafley, CEO of Proctor & Gamble, states: "Great leaders create conditions that get people organized to attack problems. They help others learn how to think, how to exercise judgment and how to take action." (at a Kellogg event)

Michael Dell, founder and chairman of Dell, who always thought big, and made Dell the number one computer company, and is on a mission to connect the next billion people all over the world.

Jim Donald, president and CEO of Starbucks, who is fanatical about communicating using his Treo, replies to every email, returns calls at 6 a.m., and always stays close to the customers.

How about Steve Ballmer, CEO, and Bill Gates, founder and chairman of Microsoft, who made Microsoft the world's largest software company.

Every CEO and founder of the Top 20 Innovators on The Innovation Index is a Creative Leader.

As **Sam Walton**, founder of Wal-Mart, once said:

"**I have always been driven to buck the system, to innovate, to take things beyond where they've been**."

Acknowledgements:

eCornell: Leading through Creativity
http://www.ecornell.com/catalog/sm/lsm507.jsp

Chapter 11

Creating Team Innovation - Chapter One

As the manager of a group of creative employees, how do you consistently create great Team Innovation?

In order to create constant **Team Innovation**, first and foremost, the manager needs to understand the characteristics and traits of a well-functioning team.

Here are the **Top Seven Charactertistics** of a *high performance team* that leads to steady and substantial Team Innovation:

Seven Characteristics:

1. The atmosphere is relaxed and informal, and work is fun
2. The task and goals are clearly understood by all group members
3. Ideas and feelings are expressed freely and openly, and with creativity
4. Conflict is productive and often, centered on issues as opposed to on people
5. The group is aware of its own functioning and dynamics, including inefficiences
6. In almost all cases, decisions are made by consensus, and consensus is not forced
7. When individual tasks are assigned, they are accepted and carried out in a timely manner by group members

*Adapted from Nelson, D. L. & Quick, J. C. (2000) Organizational Behavior: Foundations, Realities, & Challenges, Cincinnati: South-Western Publishing and eCornell.

How does a manager create such a high performance team and successful Team Innovation? Creating Team Innovation - Chapter Two will provide further details on this.

Acknowledgements:

eCornell
http://www.ecornell.com/

Chapter 12

Creating Team Innovation - Chapter Two - Examples of Effective Teams

In Creating Team Innovation – Chapter One, the characteristics of a high performance team that led to consistent Team Innovation was presented. Before I jump into how to create high performance teams, I would like to provide quick illustrations of three such teams.

Chapter Two – Examples of Effective Teams provides best practices of effective teams in various organizations, looks under the hood on what made these teams effective, and exposes areas in which these teams could have done better.

What are some examples of effective teams in an organization of which you have either been a member or a leader?

What made it an effective team? What could the team have done better?

Example One

Team:
12 Department heads and 175 employees in a Golf & Spa Resort.

Team Goal:
Business turnaround.

Team Achievement:
The team managed to turnaround a resort that was losing significant money to a hotel that actually began producing profits.

What made it an effective team?
1. One of the major factors that turned the hotel around financially was that the management focused on having the right people in the right jobs.
2. The hotel management focused on selecting (both management and hourly staffed) the right talent, setting the expectations, and defining the right outcomes.
3. Over time, the hotel ended up with a group that embodied the term “team work”.

What could have been done better?
Give everyone a fair opportunity to prove themselves (after giving the tools and training

necessary to be successful). However, once you have determined that it is not going to work out, you cannot wait too long to deal with poor performers. Not dealing with those issues will create frustration amongst those that are performing well.

Example Two

Team:
Kitchen crew at a restaurant.

Team Goal:
Product Innovation.

Team Achievement:
It was the most highly creative and fun group, that created great camaraderie and spirit in the kitchen that led to new innovations in food and service.

What made it an effective team?
1. A spirit of creative freedom was fostered by everyone, from the top down. Even though it was a very busy kitchen, there was always time to work on a pet project or to create a new dish or daily special.
2. For the most part, people were able to put aside their egos. It was very common to work on a dish, and to have someone come over and give his input, and then another person would come over and contribute his two cents. After awhile, a great new dish would emerge, which usually had little resemblance to the original thought - but was a collaboration of creative effort. Everyone would look at it with pride.
3. People were publicly praised and recognized for a job well done
4. There was a common passion and enthusiasm for what we were doing. The owners seemed to be very good at attracting and recruiting this type of employees.
5. The standards and expectations were always being raised. There was no room for complacency.

What could have been done better?

Many individuals eventually left and opened their own restaurants in the area.
Ownership was at times unreasonable, did not tolerate or forget mistakes.
The kitchen atmosphere took on an "us against them" mentality, which ironically brought the kitchen crew members together.

Example Three

Team:
Process Quality team consisting of over ten managers from sales, service, product and infrastructure organizations.

Team Goal:
Process Innovation.
The goal of this team was to surface any quality issues that the sales or service team experiences with the currently released or soon to be released products. If the issues required follow-up, the product and infrastructure managers provided a detailed follow-up analysis. If the quality issues required immediate resolution, the product and infrastructure managers will escalate these issues to executive management until they are resolved.

Team Achievement:
The team was effective in generating timely feedback and follow-up on quality issues. A detailed log of quality issues was generated after each meeting, and the product or infrastructure managers were required to follow up on these issues via email and before the next meeting. A new meeting will go over any outstanding issues, and then dive into the new issues.

What made it an effective team?
1. The team goals were clearly defined.
2. The team deeply cared about product and service quality, and customer satisfaction.
3. There was active participation, frequent communication and collaboration among the team members and management.
4. The product and infrastructure managers followed through on the quality issues, and resolved them in a timely manner.
5. The team took pride and enjoyed the moments when the quality issues were resolved.

What could have been done better?
When there was a change in senior management (a new VP took over products), his position on the activity and escalation of issues by this team changed. Thus, when issues were escalated, they were not resolved, ignored, or even challenged. Ultimately, the sales and service team who were giving their pro-active feedback began realizing the lack of follow-through from the product and infrastructure teams (owing to the change in guard). Hence, the team was eventually dissolved. Later on, the new VP realized this mistake, and created a new team to handle this.

Lessons learned:
What are the incentives for a new manager to re-invent existing processes?
Cost saving, the recognition from upper management, the recognition from clients, make an impact on existing processes by making them more efficient, cheaper or faster, to show that the experience they bring can take the company to the next level, better align processes to the company goals & objectives.

These are just a few examples from various segments of the industry on how effective teams deliver and execute, and innovate with creativity.

Creating Team Innovation - Chapter Three will examine forming such a well-functioning high performance team.

Acknowledgements:

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http://www.ecornell.com/

Chapter 13

Creating Team Innovation - Chapter Three - Unleashing Creativity And Innovation

How do leaders create highest performing teams that unleash unmatched creativity and innovation, thereby making the best products built on repeatable processes in the marketplace? Increasing the team's productivity, creativity, innovation, and potential for success is every manager's goal. Importantly, how does a manager avoid team frustration and disruption, and at the same time manage team dynamics? Creating Team Innovation – Chapter Three – explores these key elements of team structure and behavior that create constant Team Innovation.

Creating Team Innovation – Chapter One presented the **seven characteristics** of highest performing teams resulting in consistent Team Innovation. Chapter Two – Examples of Effective Teams provided examples of successful teams in various organizations.

Here are the **Ten Principles** for creating highest performing teams that produce continuous Team Innovation:

Ten Principles:

Ten Principles for creating the highest performance teams and team innovation:

1. Establish the reasons and objectives of forming a team. Create a concise team vision and mission statement that is crisp and well understood.

2. Recruit the best team players who will be the most adept at achieving the said team objectives, vision and mission. Find employees both from within the organization through your own network of friends, peers and managers, and externally through the best recruiters available.

3. Establish clear, participatory, effective and elevating team goals and plans, preferably using SMART system. Ensure that the team's plans and future direction are clear and supported, the team is kept informed of the ongoing progress, quality standards and effectiveness set, and there is complete commitment from team members towards achieving these objectives.

4. Articulate and communicate team task functions and relationship functions, and help the team understand the differences through examples. Organize and lead the team so that the team coordinates the efforts and cooperates well. Create a high degree of trust and confidence among the team members, ensure that the team members participate fully and communicate openly making sure that everyone is always included, encourage different viewpoints and foster diversity in thought and members, and build camaraderie, closeness and friendship within the team.

5. Develop healthy and productive group and meeting norms, grow team cohesiveness by building collaboration, and manage social loafing consequences. Make decisions by consensus after seeking opinions from each team member, help the team towards making its own good decisions, resolve problems and find solutions through mutual effort and open communications, and evaluate team behaviors and perceptions openly.

6. Proactively manage team behaviors and conflicts that could either encourage or harm member relations, and regulate situations where individual needs are not satisfied. The emphasis is on "proactively" managing conflicts. A high performing team will have conflicts, openly and often. Conflicts are a healthy sign of a team cooperating and communicating ideas frequently. The manager should create sound conflict resolutions techniques wherein the conflicts are addressed in a timely manner, and conflicts remain rooted in problems and issues, and not about members.

7. Cultivate and unleash Group Creativity and Innovation. A leader becomes indispensable and important to the organization when they can develop creativity throughout the organization--in their team, and in the processes the leader uses to tap and leverage that widespread creativity. What processes drive Group Creativity and Innovation? The team leader leverages Group Creativity techniques including Basic Brainstorming, Nominal Group Technique (NGT), and NGT-Storming. A creative team leader will always ask a lot of questions, never judges, encourages free-wheeling, goes for quantity (of ideas), and promotes piggybacking during the group creativity meetings. Finally, a witty quote about change, and stepping into the team member's offices and asking a simple question: "any creative ideas today?" will always encourage creativity and innovation among the team.

8. Analyze, update and maneuver team communication according to the twelve categories comprising Bales' Interaction Analysis. Bales' Interaction Analysis allows the manager to review the team's member communications in four categories: Positive reactions, Attempted answers, Questions and Negative reactions. By analyzing this once every few months, the leader can not only get insight on how the team communicates, but also provide individual members feedback. If the overall communications are moving towards increasing Questions and Negative reactions, the leader can take appropriate steps to enhance the communication flow.

9. Create a Team Assessment Inventory on the team's general productivity and climate, team goals, processes and procedures, and member relationships every three months to analyze and calibrate the team performance. This is very important if the team is going to be working together on projects for the long term. Also, this would provide the manager a self-assessment on how well the term is performing.

10. Have fun!! Create an environment wherein the team members enjoy their work, and the team morale remains high. The leader needs to exude excitement, and inject that passion so that the team members also work with high degree of energy and excitement. Every month or once every few months, the leader should take time to enjoy the achievements, and plan fun activities with the team.

Acknowledgements:

eCornell
http://www.ecornell.com/

Chapter 14

The Future of Management, Creativity And Innovation

"**We're now living in a world where it's innovation that creates wealth**," says Gary Hamel, founder of the consultancy Strategos and a visiting professor at the London Business School.

Hamel suggests revamping every management concept -- from how employees use their time to how funding is allocated to projects so that managers may inspire workers, identify the most promising business ideas and marshal the resources to execute them in his new book: **The Future of Management**

IT organizations will play a **critical role in two ways**:

first, by building systems that companies will use internally to facilitate innovation and

second, by identifying how companies can use new technologies to upend established business models and deliver new products and services.

"The Internet is doing exactly what management is supposed to do. It's amplifying and aggregating human capabilities. It's **democratizing the tools of creativity**, from digital cameras to blogs to the ability to do mash-ups. The Net is also surprisingly good at aggregating human capability. Linux is the fastest evolving piece of software that human beings have ever created.

Three Big Challenges

The three big challenges for companies over the next generation are going to be:

Adaptability -- how you build things that can transform themselves.

Innovation -- how you mobilize the imagination of every single person in your organization.

Engagement -- how you create organizations that are so engaging emotionally and intellectually that people want to bring their capabilities to work. What's the most adaptable innovative and engaging thing on the planet? The Internet.

Think about the insights that people need to be innovative, the insights they need into customers, into technology, into competitors."

Hamel talks about the "**Hierarchy of innovation**".

Hierarchy of Innovation

At the bottom is **operational innovation**, the kinds of things that companies do to run leaner or be quicker or deliver 24/7 customer service.

A step up from that is **product innovation** that delivers the next wonderful flat-screen television.

A level up from that you have **business model innovation**. Dell, at one time, was a business model innovator.

And a level up from that you have what I'd call **architectural innovation**. This is when you get a whole industry thinking differently -- what Apple did with iTunes to get all these music companies to agree to a new digital rights management system.

At the top you have **management innovation**. All of my research suggests that it's management innovation that has created the most enduring source of competitive advantage.

"*If I were a CEO, the first question I'd ask in every budget meeting and in every review meeting with my CIO would be what percentage of our total budget and time is going into projects that will allow us to do something unique in our industry*"

Where does Innovation come from?

Number one, innovation comes from challenging industry dogma.

Number two is understanding the early warning signs of big shifts in demographics, technology, regulation or whatever it may be that most of the industry simply isn't paying attention to.

The third kind of personal competence you need to innovate is a deep empathy with the hidden or unarticulated needs of your customers.

I think the last competence as an innovator you need today is you can't think about your company in terms of what it makes and what it does. You have to think of it in terms of what it owns and what it knows -- its strategic assets.

Bottomline:

Hamel is on the money when it comes to driving creativity and innovation at today's business. The key insight is management driving innovation or at most times coming in the way. According to Hamel, it is really upto the management to create the processes that unblock creativity and innovation, enable ways to find innovation, and execute. How can companies really mobilize the imagination of every single person in the organization and create lasting wealth? To find out more, first read his interview below, and then the book.

Acknowledgements:

Can't innovate? Blame management
http://www.itbusiness.ca/it/client/en/home/News.asp?id=45862

Q & A: Leading business strategy expert Gary Hamel talks to us about what it takes to get ahead in today's enterprise environment. It turns out we're consistently solving the same problems while ignoring the bigger ones around the corner
by Elana Varon

Chapter 15

How Much Creativity Is Enough?

How much creativity is enough? Is there an optimal level of creativity for a person to have? Is it possible to be "too creative?" Is it true, or a myth, that creative people can be difficult to manage?

Creativity generates Ideas. Ideas generate Innovations. Innovations generate New Products. New Products make company successful in the long term. A company can never have too much creativity. Creativity can give rise to new products that may fail. However, without creativity, there are no new products. Creativity and Innovation define the future of any business. The day creativity is thought to be enough, the company stops innovating, stops creating great new products, becomes complacent and eventually ceases to exist.

Too much creativity or optimal level of creativity depends on the company, its culture and its individuals. ***Creativity in a corporate environment needs to be channelled to produce great products***. Employing creative individuals in specific business units such as marketing, desktop publishing, web business, advertising or new product development makes business sense. An optimal level of creativity can be achieved within the organization as a whole, where the appropriate guidelines and frameworks are in place for creative individuals and their ideas, and to convert such creativity into viable business solutions. If the individual is employed in a role that requires creativity, there cannot be too much of it – however *a defined structure that sets boundaries, such as market needs, financial constraints, resource availability, project checklist and milestones, etc. can drive measurable, sustainable and innovative results*. When the business risks grow, a methodical framework or business process needs to be implemented to translate creative ideas into viable business enterprises.

An experienced manager knows how to manage creativity and creative individuals without coming in the way of generating new ideas. Creative individuals have the innate ability to visualize the end product; however, at times this is also coupled with the complexity to execute on a plan to get there. The key is to provide the creative individuals a platform to be creative, and lead their ideas into markets. Surrounding creative individuals with the appropriate infrastructure and resources to convert their ideas into workable solutions can be very rewarding and profitable. On the contrary, leaving them to their own devices can potentially result in chaos, delayed delivery, under delivery on commitments, overspending and incomplete end results.

Creative individuals can tend to be independent, expressive and passionate. Their mindset stems from the cultural differences between highly creative and operational organizational norms. For example, creative individuals thrive on generating ideas, and asking the "what if" questions. Some managers may prefer efficiency to unproven ideas and rhetorical questions. A manager can nurture their entrepreneurial spirit, and yet manage them well in group settings and staff meetings. There is also the possibility of expansive dialogs and debates, especially when a manager rejects an idea or two from a creative individual. This is perhaps the most challenging aspect of managing a creative individual: how to say "No" to certain ideas that may make compelling sense to the individual?

Creativity is paramount to the success of any business. Creativity drives Ideas. Ideas drive Innovations. Innovations drive New Products and Markets. Creativity And Innovation drive business.

Acknowledgements:

eCornell: Leading Through Creativity
http://www.ecornell.com/catalog/sm/lsm507.jsp

Chapter 16

Co-Creation Driving Innovation

What does Doritos chips, Starwood hotels and Timex watches have in common? According to Gerhard Gschwandtner, Editor and Founder of Selling Power, they are all engaging their customers to co-create. In the latest issue of Selling Power, Gschwandtner talks about the role of co-creation driving innovation in mainstream businesses.

What is Co-Creation?

Gschwandtner summarizes: "Information (online) technology has empowered consumers to share ideas, documents, images, and movies across the forever- expanding digital world. The Internet allows businesses to engage customers in a creative workshop experience." This online engagement with the customers that creates new innovative solutions is Co-Creation.

Doritos and The Super Bowl

What is Doritos doing to co-create with the customers? How about a "story about eating your first Doritos chips or what life is like for the spices on the surface of the chip"? Consumers are invited to submit their 30-second homemade videos on stories about Doritos. Talk about whetting consumers' appetite for Doritos with the growing appetite of homemade videos - it appears that Doritos has created the perfect match. And the best part is the grand prize: the top video will be aired as a commercial during next year's Super Bowl (2007). Five finalists will also be awarded $10,000 each. Doritos wins by rallying hundreds of thousands of consumers to create playful videos about its chips, creating the consumer buzz around Doritos at time of the Super Bowl, and finally showcasing the advertisement in front of about a hundred million people watching the Super Bowl. Co-Creation in motion.

Aloft at Starwood

The next time you want to go to a great hotel, how about just logging online and typing in: www.virtualaloft.com. No need to leave home. Welcome to Aloft Hotel, the new futuristic hotel from Starwood. The virtual hotel invites guests to tour the hotel and get a 360 degree view, walk around the lobby, check into a room, swim in the pool, and even watch a sunset on the rooftop terrace. Starwood has taken the concept of co-creation to the next level (literally) by creating the first virtual hotel online, and simultaneously encouraging the customers to provide feedback and engage with the designers and architects who are building the real hotel.

The real hotel will not open until 2008 - plenty of time for Starwood to gather all the customer inputs and creating something that customers really crave for. What a great concept? For instance, at their website, the designers heard one question a few times on "why there wasn't a door in the bathroom." They immediately responded that "there will be a sliding door in the real hotel" and explained why it was missing in the first place. Co-Creation at work.

Timex and The Future of Time

Timex, as part of its 150th Anniversary celebration, and to demonstrate an ongoing commitment to design and innovation, conducted a global design competition: Timex2154: The Future of Time (2004+150 years=2154). Designers from more than 72 countries explored and visualized personal and portable timekeeping 150 years into the future and submitted 640 entries. An assembled world-class design team evaluated the entries in three categories: wrist-based, wearable, and conceptual, and chose the winners. Timex could not have done this alone (if they would have tried to design a futuristic watch). Instead, they were able to obtain 640 creative ideas from some of the world's best designers in a timely manner. Further, Timex created a leadership position as a Watch company by creating such a campaign and getting the inputs from some of the best designers. Co-Creation driving innovation.

Diversity drives Innovation

Gschwandtner compares the past and the present of customer innovations: "In the past, customers have been limited to communicating their wants and needs in surveys and focus groups; today, brands deploy existing technologies to map their customer's imagination. Brands no longer view consumers as targets with a wallet, but as co-creators of exciting and profitable solutions." This is a tremendous shift. Rather than simply aiming customers for profits with obsolete products, now you are learning from them in real-time and creating better products that will in turn create profitable customers. And today's customer who is digitally engaged and enjoys personal service would not have it any other way. Gschwandtner aptly quotes the term "Diversity drives Innovation" from the book *The Medici Effect* by *Frans Johansson* to demonstrate the effect of Co-Creation.

Bottomline

As Co-Creation demonstrates tangible results, more mainstream businesses will experiment and adopt it - not just technology companies. The best side effect of Co-Creation is it brings you that much closer to your customers and creates a positive business environment. The business should not become overzealous about deploying Co-Creation. It has to make observations and decisions based on sampling size and customer type on whether to go all out with customer inputs or experiment.

Acknowledgements:

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Chapter 17

Marketing Innovation Creating Market Leadership

Marketing executives have limited dollars and resources to invest on marketing programs and create market share growth. How do they pick the optimal go-to-market strategy to achieve market leadership? What markets do they invest into and how much? How do they create Marketing Innovation so that they are maximizing the marketing investments and generating higher revenue today and in the future?

The markets can be divided into five broad categories including Growth market, Emerging market, Existing market, Replacement market and Untapped market to create the appropriate context.

1. Growth market:

a. Growth market is the market where the organization is seeing the most business traction today. The marketing executive needs to first answer the following questions to establish the baseline: What is our current market share in the Growth market? Who are our prime customers? Why are the customers using our products? For how long? Do we provide an effective solution? Are we winning? Why are we winning? Who are we winning against?
b. The marketing executive also needs to determine the Growth market trends. Whether the Growth market is going to grow further. And determine whether the organization is growing at the pace of the Growth market or faster than the pace of the Growth market.
c. At this point an internal analysis of marketing programs that have worked well to get us to this position in the Growth market is needed. The marketing executive needs to determine what has worked and what has not. And why?
d. Now, the key question needs to be addressed on how marketing department can accelerate the business in this Growth market? Whether the department can create an assembly line of marketing programs to accelerate the growth in this market, and rapidly scale. What does the department need to create the assembly line?
e. Finally the department needs to determine the marketing tools, sales collateral and techniques needed to create the demand in the Growth market.
f. Knowing that Growth markets provide maximum revenue dollars today, minimum of 50% to 60% of the marketing investment should be focused on the Growth market. The marketing game is all about execution in the Growth markets.

2. Emerging market:

a. Any market where the organization is seeing an early traction is an Emerging market. The questions that the marketing deparment need to address are: Why are we seeing the

early traction? For how long? Do we have an effective solution? Are we winning? Are there competitors prevalent in this market?
b. Now, the marketing department needs to determine whether the Emerging market is a new industry, a new geography, a new vertical, a new user, or a new application of our product.
c. At this point, market sizing and trending is needed. Is there a larger market here beyond the Emerging market? How big is the size of the potential Emerging market? What is the potential growth of this Emerging market? How can we win in this Emerging market? Again, marketing needs to have answers to these questions.
d. The marketing department should invest into one or two emerging markets. Marketing programs for an emerging market will be more creative, innovative and ad-hoc.
e. In an Emerging Market, it is always best to create a Hypothesis. Experiment. Test the hypothesis. Change as often as needed.
f. Knowing that there is a huge upside from investing in an emerging market, minimum of 10% to 20% of marketing investment should be focused here. There is mid-term to long-term revenue potential in the Emerging markets.

3. Existing market:

a. Existing market is the market consisting of the existing, long-standing customers. First, the marketing department needs to know who the existing customers are, why they purchased company's product, how long they have been using company's product, whether they are happy customers and loyal customers, and the company's current relationship with these customers. Another key question to address is how many customers the company loses every quarter and why.
b. It is very important to understand how the existing customers are using company's products. Whether the customers are using the products to the fullest potential. This would lead to key question: Can we market more of the same products to the existing customers? This is tied to extracting the maximum life-time value from the existing customers. Marketing needs to know the maximum life-time value of the existing customers.
c. Another key question that needs to be answered is: Can the company market different products to our existing customers? How do we do this?
d. Ultimately, the marketing department needs to determine the total revenue potential from existing customers. And assess on where the business is today, and the growth potential.
e. When it comes to execution, marketing department should analyze the marketing programs for the existing customers, on what has worked well in the past, and what has not worked well.
f. Another program to consider is whether the existing customers can refer the company to more customers. And what processes need to be in place to achieve this. An estimate of the total potential market of referral customers from the existing customers is essential. Again, establishing the baseline on where the company is with referral business, and

analyzing the growth potential is needed.
g. Existing customers not only bring the company maintenance and ongoing service revenue, but provide a tangible upside at a lowered investment.
h. Minimum of 15% to 20% of marketing investment should be focused here. There is short-term revenue potential in the Existing markets (unless it is completely tapped).

4. Replacement market:

There are two replacement markets. Markets that the company takes away from Competitors and Adjacent markets.

a. Competitors:

1. Marketing department needs to have a deep understanding of the direct and indirect competitors and their business. Market share analysis needs to be conducted on Competitors' current market share, and importantly whether their market share is growing, shrinking or remaining flat.
2. Competitive marketing strategy needs to be established.
3. Simply put, competitors' customers need to be identified. A key question to ask is: Are the competitors' customers satisfied? How is our own customer satisfaction?
4. Analysis needs to be conducted on why the organization loses against the competitors, why it wins against them in new business. A list of the competitors' weaknesses needs to be surfaced as part of the SWOT analysis.
5. Further research on how many customers the company has won over from the competition needs to be undertaken (takeaways) and by the same token, existing customers lost to competition (giveaways).
6. Finally, marketing department needs to creatively finds ways to access the competitor's customer base (names, titles, industries, etc.).
7. At this point, marketing department is ready to create marketing programs to win away competitor's customers. At a minimum, the program includes campaign, offer, marketing and sales tools, fulfillment, product and data conversion and integration.
8. Minimum 10% to 20% marketing investment should be aimed at competition. There is mid-term revenue potential in Competitors' markets (programs take time to execute; customers take time to convert).

b. Adjacent market:

1. Adjacent markets are markets that are either sub-sets or super-sets of the solution that the company provides. The company must know on whether it provides a complete solution to the customer's problems or only a subset. For instance, the solution could be deeply embedded within a business process wherein the customer uses other technologies and products. If the company provides a complete solution, what is the strategy against those who provide only a subset? If the company provides a subset, what is the strategy

to provide a complete solution? These questions need to be addressed.
2. The marketing department needs to determine the players in the Adjacent market that provide a complete solution or a subset, and whether they are potential competitors or partners.
3. Further, the marketing department needs to answer the following questions: Who are the customers? Are their needs maturing? Are they looking to upgrade and replace the other players? What is the market growth potential?
4. Finally the all-important analysis on resources, costs, profits and risks associated with entering an Adjacent market needs to be conducted. Questions such as entering the Adjacent market head-on, complementing existing players, or focus on a specific niche need to be addressed.
5. The key to execution in Adjacent Market is Experiment. Test a hypothesis. Change the strategy as often as needed.
6. Minimum 5% to 10% marketing investment should be aimed at Adjacent markets. There is mid-term to long-term revenue potential in the Adjacent markets (creating a strategy, executing and attracting customers will take time).
9. Executing marketing programs for adjacent markets require opportunistic measures and entrepreneurship.

5. Untapped market:

a. Untapped market is where the company has zero business and no traction. Marketing department needs to determine the Untapped markets, and reasons on why the company has not created any business in these markets.
b. Marketing has to answer the following questions: Can we tap into this market? What is the investment required? What is the available market?
c. Competitive analysis needs to be conducted on whether the competitors have already tapped into this market, and why.
d. As part of execution, marketing needs to think about creating beachheads, and whether the company can leverage their mindshare to build and create this market.
e. Since Untapped market is brand new, a key question on market entry needs to be analyzed: entering with partners or going direct.
f. Marketing department needs to think about creating opportunistic mechanisms to explore the untapped market, and should be willing to change them often.
g. Minimum 1% to 5% marketing investment should be aimed at untapped markets. There is long-term revenue potential in this market.
h. Untapped market is where companies evolve, become great companies and bring in new revenue and market share. Investing into untapped markets is high risk, high reward strategy.

Marketing Innovation requires strategy, disciplined execution, and entrepreneurship (especially outside Growth markets). Marketing Innovation can create significant market leadership for organizations that put all the marketing wheels in motion.

Chapter 18

Consumer Innovation Best Practices

Michael J. Silverstein in "Trading Up" conceptualized the "new luxury" paradigm shift driving today's consumer shopping habits - paying high prices for goods and services that are appealing, cool and emotionally satisfying including shoes, golf clubs, music, home, food at fancy restaurants, beauty products and more.

In his new book, "Treasure Hunt", Silverstein with John Butman shows that the same consumers are not only buying at Victoria's Secret and Panera, but also are going to Costco and Home Depot and getting the same emotional satisfaction. In essence, shopping has become fun and rewarding, an adventure, a "Treasure Hunt". One reason for this: the growth of both low-end and high-end consumer categories and innovations in goods, services, designs, marketing and selling.

Silverstein notes that on the one hand a consumer buys a venti latte at Starbucks (NASDAQ: SBUX) for $5, on the other brews coffee at home for 40 cents, and uses the savings to buy an Apple Nano (NASDAQ: AAPL). How can a business target both the high-end and low-end consumer? How do innovators such as eBay Inc. (NASDAQ: EBAY), Dollar General, H. E. Butt (H.E.B stores), Commerce Bank, Tchibo, Aldi, Bath and Body Works, McDonalds, and more cater to the "bifurcated consumer market"? It's a double-edged sword - the offering has to be exciting enough for "trading up", or enough of an emotional bargain to go "treasure hunt." Anything in the middle is a treacherous fall.

Silverstein provides a detailed process for continued consumer-driven innovation. The process requires a detailed prework that includes mapping the competitive landscape, determining the consumer dreams, dissatisfactions and anomalies, global patterning, cost structure breakdown, and moment of truth diagnostic. If this sounds too complex, Silverstein provides a simple yet ingenuous checklist of five questions whenever he is out shopping and looking for new products:

Five Questions for New Products:

1. Does the product clearly have technical, functional and emotional benefits?

2. Is there a clear consumer target?

3. Is the product displayed in a store in such a way that consumer would describe it as

"stunning"?

4. Is there a pattern of continuous innovation?

5. Is the consumer fundamentally engaged in such a way that she wants to say "Yes"?

Silverstein observes several changes contributing to the growth in bifurcation of consumer market – high-end and low-end – over the next decade. Finally, the author provides a six-step call to action for the innovators to lead, innovate and grow:

Six Steps to Innovate:

1. Don't wait for the market to move. Be ahead of the curve.

2. Engineer out dissatisfactions in your product.

3. Hunt for value in the trade-up and trade-down segments of your market.

4. Inspire a continuous search for cheaper, better, more value...and better, better, better.

5. Attack the category like an outsider who is looking at a blank sheet.

6. Pursue the market with energy and relentlessness.

Apple, Starbucks and eBay are 3 of the top 20 innovators of The Innovation Index.

Acknowledgements:

Treasure Hunt - Inside the Mind of the New Consumer - Michael J. Silverstein with John Butman

Chapter 19

The Disruptive Innovation Gap

When does a Business become a dominant business in its market, achieve outright market leadership, and continue the market growth onwards and upwards.

Answer: Innovation.

Innovation driven by creativity and excellence in products, operations, and distribution.

Christensen's Hypothesis

According to Clayton Christensen, author of "Innovator's Dilemma: When New Technologies Cause Great Firms to Fall", companies that become attached to "**Sustaining Innovation**" eventually disappear or lose their market leadership position. "Sustaining Innovation" is innovation derived from evolving the current product, serving profitable customers' needs, and focusing on investments driven by profit margins. On the other hand, companies that drive "**Disruptive Innovation**" create new markets with opportunistic and creative Innovation, take away market shares from existing players of "Sustaining Innovation", and eventually become market share leaders. "Disruptive Innovation" is derived from creating simple, easy to use products that appeal to the low-end of the market, or a new, untapped market. Frequently "Sustaining Innovation" companies are driven up-market in a response to the low-end "Disrupting Innovation" players thus relegating them to a smaller segment of the market.

Christensen observes that as the market need evolves from early market to market maturity, the performance requirement associated with use and adoption of products by the broader market changes, and companies that are only focused on "Sustaining Innovation" typically do not react to this change. These companies are serving the needs of their current customers (profits), and frequently, these customers are not representative of the broader market. Even though these companies know about this change in customer habits and needs, they are not in any position to re-define themselves to embrace this changing market environment. On the other hand, companies driving "Disruptive Innovation" frequently observe this change in customer adoption, and create innovative products for the low-end market or a particular untapped market that allow them to achieve leadership.

Further, **Disruption and Commoditization** happen in parallel - so for the companies attached to "Sustaining Innovation", it is a double whammy - lose market to Disruption and lose profits to Commoditization. What ends up happening is the "Sustaining

Innovation" company creating a product that is too good for the broader market and hence cannot command the premium price any more. On the other hand, the Disruptor, who is not worried about price margins, provides a product that is initially focused on the low-end market need or a particular unserved market segment, and begins capturing market share.

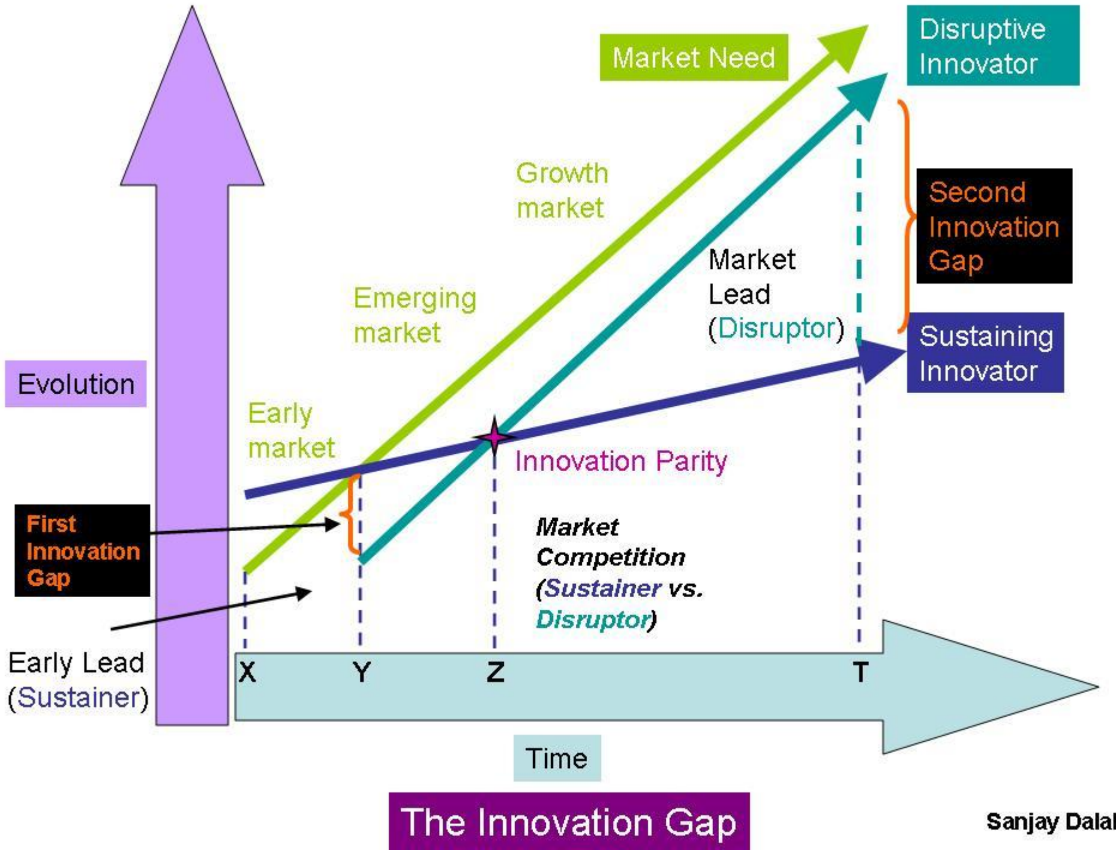
Some Questions

What happens to the "Disruptive Innovator" as we travel in time and as the markets evolve?

When and how does the "Disruptive Innovator" overtake the "Sustaining Innovator" ?

How does the market share for the "Disruptive Innovator" grow beyond the market share of the "Sustaining Innovator"?

To understand this further, let us look at the chart below titled "The Innovation Gap". (This is a variation from the model discussed by Christensen; I have tried to piece together the underlying concept)



The X axis is the "Time" axis, the Y axis is the "Evolution" axis.
The chart showcases **Market Need**, Sustaining Innovator, and Disruptive Innovator. For chart simplicity, the Market Need and associated Market Growth is demonstrated on a straight line (a bell curve, or variable curve could be used instead).

Early Lead

The "Sustaining Innovator" or the Sustainer has the Early Lead in the Early Market. It has launched its product at point in time "X" as shown in the chart, a product that not only meets the current need of the customers in the Early Market, but also exceeds it. As a matter of fact, the Sustainer continues meeting this need of the Early Market customers, and some of the need of the Emerging Market customers as the market evolves.

The Disruptive Innovator or the Disruptor is not even present when the Sustainer began marketing its product to the Early Market customers at a point in time "X" on the chart. The Sustainer has this Early Lead on the Disruptor, both in terms of Market and

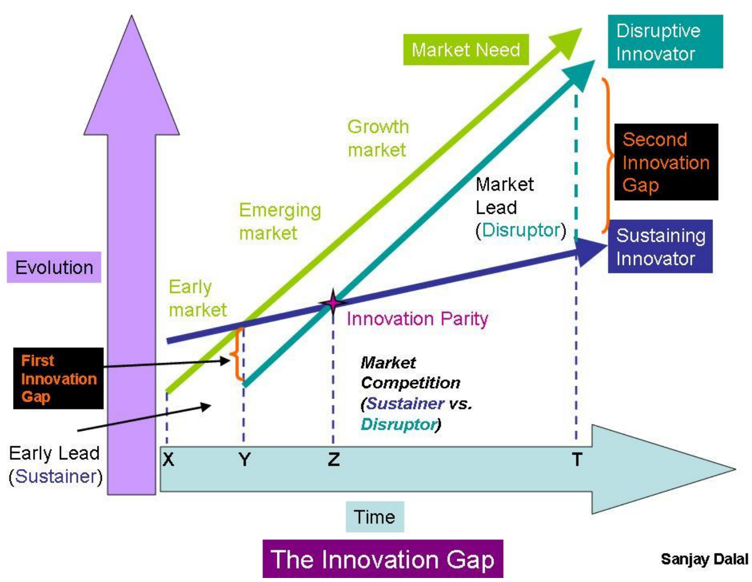
Innovation, until the Disruptor launches its own product at point in time "Y" as shown in the chart.

First Innovation Gap

The Gap exists wherein the Sustainer has simply better Innovation than the Disruptor at the "Y" point of time in the Market evolution, has better understanding of the customer and has greater market share. We call this Gap, the "First Innovation Gap". The Sustainer has the lead on the Disruptor. It is precisely this Gap that drives the Disruptor to create new Innovation that is simple, easy to use and at relatively better price points. The Disruptor targets the low-end of the market or an untapped market. The Disruptor remains "under the radar" for some time as it starts building up this market that the Sustainer largely ignores (for the Sustainer is focused elsewhere, on the larger profitable customers, and meeting their needs).

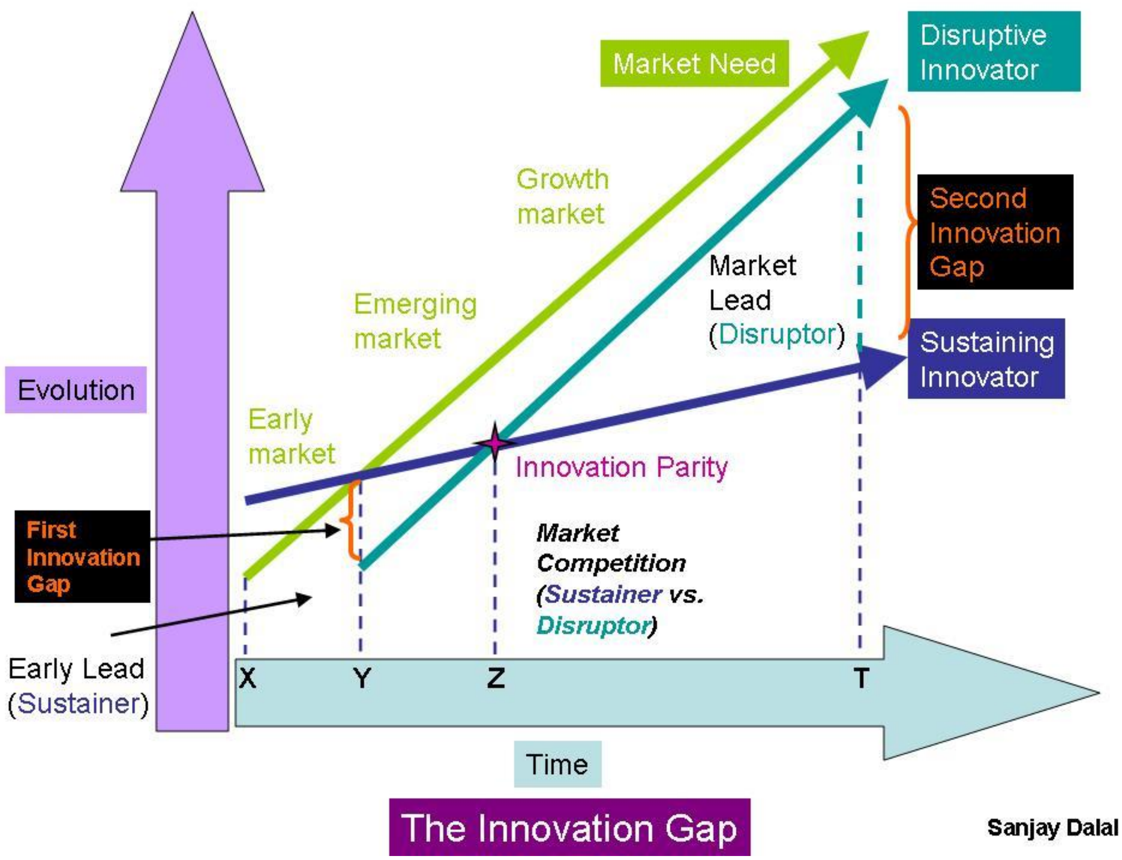
Of course, this type of "First Innovation Gap" is not simply associated in the Early Market. It could happen at any stage of the Market. The Sustainer will have this Early Lead on the Disruptor always at some point in time.

While the Sustainer is Innovating at a different pace and trajectory serving the needs of its profitable and larger customers, and focused on profitable investments, the Disrupter is Innovating at a faster pace and trajectory serving the needs of the broader market, and creating new market share. The Disruptor has created Innovation that has a broader market appeal, owing to the simplicity and ease of use, and relatively better price points.



Innovation Parity

At point in time "Z" of the market evolution, the Disruptor has caught up with the Sustainer in Innovation, albeit on separate trajectories. We call this intersection as the "Innovation Parity". As is evident, it took the Disruptor less time to get to "Innovation Parity". The "Innovation Parity" is a significant milestone for both the Disruptor and the Sustainer - for the Sustainer has larger market share and profits at this point in time of the market evolution. The Disruptor has a growing share of the market and is also seeing some profits. And both the Disruptor and Sustainer are now matched up in terms of Innovation. The Sustainer's Innovation and market growth is tapered as it crosses the "Innovation Parity". The Sustainer has lost its market pulse and eye on the market, and is now losing head to head versus the Disruptor in its current market and customer base. The Sustainer has seen the growth of the Disruptor and growth of the broader market. However, the Sustainer has not changed with the changing environment and changing customer need. On the other hand, the Disruptor's Innovation and market growth is aligned and even faster than the pace of the market as it crosses the "Innovation Parity". The Disruptor is gaining significant market share, competing and winning head-on versus the Sustainer, and is beginning to create a Market Lead over the Sustainer.



Second Innovation Gap

What begins to emerge after the "Innovation Parity" is the "Second Innovation Gap". The Disruptor continues its Innovation momentum, is in tune with the market need, is winning consistently against the Sustainer, and has increased the market share. The Disruptor becomes the new market share leader at point in time "T" as shown in the chart. The Sustainer has fallen behind in Innovation, lost the momentum, is losing consistently against the Disruptor and lost the market leadership. The "Second Innovation Gap" is much wider than the "First Innovation Gap". For most Sustainers, the "Second Innovation Gap" is Game, Set, Match for the Disruptor that caused the Second Gap in the first place. The Disruptor is the newly crowned market leader and will remain the market leader for the longest time. This is not to say that the Sustainer cannot turn its Innovation and Growth trajectory and has the potential to itself become the Disruptor. However, as with the laws of probability, the probability for the same Sustainer to turn around and become a Disruptor again is minimal at best. Rather it is likely that the newly crowned Disruptor and market leader will at some point in time become complacent, become a Sustainer and leave the door open for a new Disruptor to come from behind. This could happen with a shift in the market, shift in customer need, significant market events, and significant new Innovation. And the Innovation Cycle continues.

How easy is it to cause Disruptive Innovation?

According to Christensen, Disruptive Innovation necessitates a disparate strategy process - not on what is already known to work, and incremental improvements. The process is driven by Creativity, unconventional and out-of-the-box thought, and without any anticipation. Further, the process design does not begin with addressing the needs of current customers (this is what the Sustainer does); rather the process design targets what's underneath the need. What drives customers to do what they do. Where is the unanticipated need? And finally, Disruptive Innovators are not profit driven - at least not initially. Their focus is on creating something of intrinsic value that will appeal to a much larger market, yet is intuitive, easy to use and simple.

Acknowledgements:

Clayton M. Christensen - The Innovator's Dilemma, The Innovator's Solution, Seeing What's Next

Chapter 20

Are Children More Creative Than Adults?

Remember growing up as a child...were you more creative as a kid than you are now? Or are you more creative as an adult? I would like to learn from the adults out there... and ask you this question: Are Children More Creative Than Adults? I would like to learn from your experience.

I grew up in India until I was 18 years old. Our method of learning in the school was focused a lot more on memorization and theory. We did have labs in high school, but we did not do much outside projects. There was too much focus on getting the highest grades in the twelfth standard state or central exam so that one can secure an admission in a recognized engineering, medical, commerce or science school. I would like to know if much has changed since 1987 in India. My best memory was though visiting Goa when I was in the eleventh grade, when I attended an Oceanography convention. Not only did I learn about what goes on under the ocean, but also about how large naval ships are made, Goa's rich cultural history and the government (we even met Goa's governor or the top official), Kingfisher, beaches and more. Of course, now Goa has become a major beach city in India and a top tourist destination. That was the first time I went on a cruise from Bombay to Goa (and it was quite an adventure since this ship was really small and we could feel the ocean all around us). And we also stayed overnight at a train station in a small town in Gujarat on the way back to Ahmedabad (when we missed our connecting train). I was one of a handful of students who attended this convention. And I still remember this trip fondly. Learning what goes around outside in the world of oceans is what allowed me to expand my creativity - we had to complete a group project and provide a presentation as well to visiting faculty and students from all over India.

My children go to schools in USA (our daughter is 8 and is a 3rd grader, our son is 13 and is a 8th grader). I love the method of education here that encourages my children to express their creativity - there are projects on various subject matter such as history, sciences, humanities, people, culture and more that they need to work on, presentations they need to give, and field trips that are mostly integrated into their curriculum (on which children need to report also). And there is good access to technology such as computers, software, electronic toys, libraries with Internet connections, computer labs within the schools, and more. But I am seeing some changes already - my son was a lot more creative in his elementary school years than the middle school years (perhaps owing to more studies, and his current passion for Tennis and Basketball where he spends more time). My daughter definitely shows flashes of creativity, and I am quite proud when she thinks outside the box (actually impressed). But would this continue beyond the elementary school? My kids have not entered high school yet... so I want to see if high school education is focused on expanding their creativity and imagination, or becomes narrower towards getting them ready for college. It's not schools alone though - lot of creativity depends on what happens at home, and in your surroundings. Parents have a huge role to play in exposing their children to newer areas of potential interest. Nowadays, when we ask our teenage son to go out to see something interesting, his first answer is "No". He is more interested in his world of computers, Internet, iPhone applications and iPod music, friends, and hanging out. Perhaps we are becoming a bit old school for him. But then when he does go out, he really enjoys it. May be I need to change ways in which I encourage him to go out.

So, I come back to my original question: Are Children More Creative Than Adults?

I believe I am more creative now in certain areas of interest that I love. But there are many areas where I am not, and I would love to get better...

Young children have some amazing qualities about them that perhaps make them more creative: open mind, make connections, playful, curious, expressive, forgetful and forgiving, hands on, direct without reservations, fun to be around, enjoy things, cry out for small things, sleep well, and have a great sense of humor. But perhaps the most important quality of a child as he or she is growing up is asking questions! Not just, "Are we there yet?", but also, "How does this work? What happens when you do this? Why does it go this way? When will something happen? Who is that person on TV? And many many more..." Did we ever tell our children that this is a dumb question? Perhaps not until they grow up to a certain age. And even then, we are always careful in inspiring them to ask more questions and learn more. I remember as my son was growing up, I took him to a baseball game to Oakland. We used to live in Fremont, California. We went to see the Athletics play. From the time we left our home (we drove to the BART station), to walking to the BART station, taking the BART train, going in the train for about 20 minutes, to walking to the baseball park - my son must have asked me about 100 or so questions (and most of them had nothing to do with baseball). Do these qualities make children more creative than adults? Do adults lose some of these qualities as they grow older?

Here are some interesting facts about the childhood of some of the key scientists, thinkers, inventors, entrepreneurs and innovators. What do these facts tell us?

1. Einstein was four years old before he could speak and seven before he could read.
2. Isaac Newton did poorly in grade school.
3. When Thomas Edison was a boy, his teachers told him he was too stupid to learn anything.
4. F.W.Woolworth got a job in a dry goods store when he was 21. But his employers would not let him wait on a customer because he "Didn't have enough sense."
5. A newspaper editor fired Walt Disney because he had "No good ideas"
6. Caruso's music teacher told him "You can't sing, you have no voice at all."
7. Leo Tolstoy flunked out of college.

8. Verner Von Braun flunked 9th grade algebra.
9. Admiral Richard E. Byrd had been retired from the navy, as, "Unfit for service" Until he flew over both poles.
10. Louis Pasteur was rated as mediocre in chemistry when he attended the Royal College
11. Abraham Lincoln entered The Black Hawk War as a captain and came out a private
12. Fred Waring was once rejected from high school chorus.
13. Winston Churchill failed the sixth grade.
14. Dhirubhai Ambani who only studied until 10th grade, sold "bhajias" to pilgrims in Mount Girnar over the weekends.
15. Bill Gates dropped out of Harvard, Steve Jobs dropped out of Reed, Michael Dell dropped out of University of Texas at Austin, Larry Ellison dropped out of University of Chicago and University of Illinois. The list of rich and famous people who dropped out of college or high school is spectacular. The bigger question: Do colleges and high schools make children more or less creative?

I want to learn more from you... Are you more creative today than when you were a child? Did you do some amazing things as a child? Did you have more ideas as a child? Do you still do those amazing things? Is your workplace making you more or less creative? Are you able to create new innovations?

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Chapter 21

Questions lead to Creativity, Answers lead to Innovations

- Creativity begins with asking questions…
- Innovation happens when you find answers…
- No questions, no answer
- More questions, better answer

“The important thing is never to stop questioning.” - Albert Einstein

Ask “This List of Questions”

- People ask these questions about objects and actions.
- People ask these questions in any situation.
- Certain questions may be silly or misplaced for certain situations.
- Often these questions lead to the most creative ideas.

Let us begin with your question…

- My Question is:
- ______________________________

Say, your question could be: "I just released my new user interface. And a majority of my customers hate it. What do I do now?"

There is an old saying: "If it ain't broke, don't fix it"

Facebook released their new interface last week, and loyal Facebook users are voicing their disapproval in hordes. Remember, Facebook got popular as a platform without much user feedback in the early years.

Now that Facebook has millions of users, user feedback becomes paramount!

One has to ask these questions:
1. What feedback did Facebook product managers get from their users before they designed the new interface?
2. Did Facebook get this right? Was this feedback accurate? Was it from a large base of

users?
3. Did Facebook design and deploy the new interface properly?

What will Facebook do now?

Can it go about face and go back to the old interface? This would make Facebook look rather pedestrian. It's similar to Nintendo or Microsoft releasing their latest version of Wii or Xbox, and recalling it. But, this is web software. So, Facebook can go back to the older version. Or better yet, create an intermediate version, rather fast, to please the larger majority of users.

The longer Facebook takes to respond, the bigger this problem potentially becomes. Facebook does not want this to become news story on a Jay Leno or David Letterman for sure...

Or, Facebook, can wait, and try to ride it out... Can they do this?

What are we doing here? We are asking a lot of relevant questions about the situation Facebook is currently in.

Questions lead to new discoveries, new ideas, increased creativity. And when one finds answers to these questions, they often lead to innovations.

Here is The List of Questions that **one must ask** to unlock the creativity, and spark new ideas before solving any problem, creating a new innovation, embarking on a new opportunity - (adopted from eCornell and Roger Shank's book):

<u>The first list is the Object Rules</u>:

1. Where From
Where did you get XYZ? Is it easy to find this?
2. Function
What do you do with XYZ? Who wants XYZ?
3. Enablement
How did you get XYZ? What resources?
4. Habits
How does doing XYZ fit? What changes?
5. Associated Objects
What goes in, around, with XYZ?
6. Results
What will you do after XYZ? Before XYZ?
What if you don’t like after XYZ?
7. Problems

What issues will be caused by XYZ?
What issues without XYZ?
What is the perception of having XYZ?

The second list is made up of Action Rules:

1. Next Event
What happens or might happen next?
2. Preceding and Enabling Events
What caused XYZ? What led up? Able to?
3. Associated Objects
How do you XYZ without ABC? How did you get ABC that enabled XYZ?
4. Other Actors
Who else XYZs? Or creates XYZs?
5. Associated Actions
What happens with or goes along XYZ?
6. Physical Results
Do we want state ABC due to XYZ? Why?
7. Scripts
What else was going on to cause XYZ?
8. Reason
Why did XYZ take place? Facts causing this
9. Alternative Plans
Why don't we do ABC instead?
Is there a different path to get XYZ?
Who will help us get there, and why?
10. History
What was going on, the frequency and causes XYZ to happen?
11. Emotional or Social Effect
Do you love XYZ? Does it make a difference? Everyone wants XYZ?

So, the next time you are faced with change, roadblock, or beginning new initiatives, ask the above list of questions.

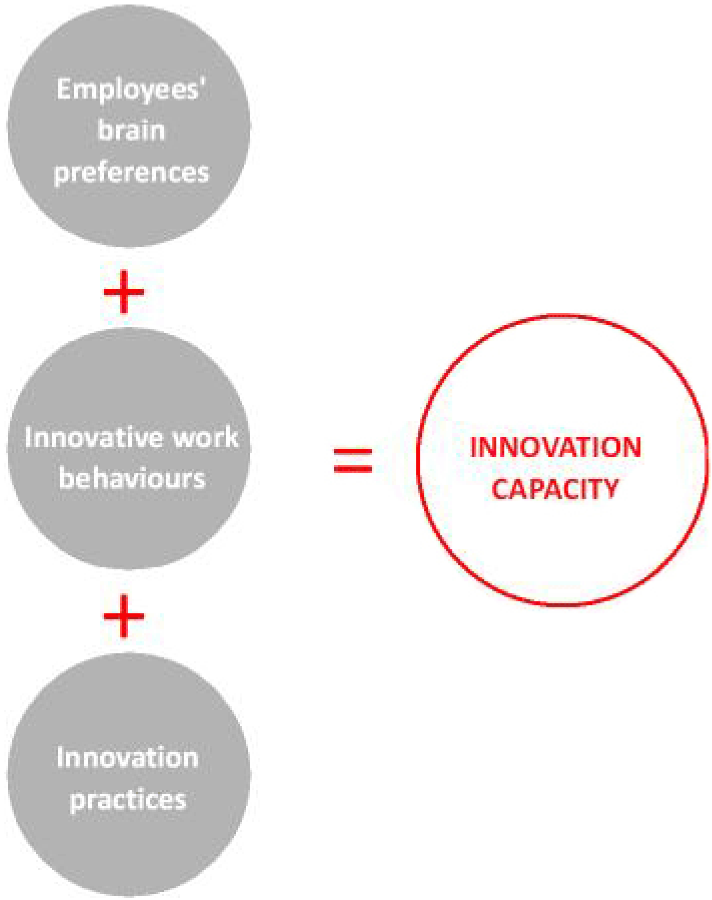
How will Facebook react to the user feedback? I am a Facebook user myself, and will be eagerly awaiting Facebook's answer to this latest challenge. Facebook business leadership must act swiftly before the current situation becomes a juggernaut.

- Creativity begins with asking questions…
- Innovation happens when you find answers…

References: Roger Shank, eCornell

Chapter 22

Expanding Your Business Innovation Capacity



(Image courtesy: www.techmankanata.com)

"The sudden awareness of the urgent need for change and looking into the future in a more structured way, *made this little sexy word (innovation) very popular, trendsetting and chic. However, how would you define innovation? What makes a company innovative?"*

According to Mariana Ferrari Quijano, it is better not to define it (the word innovation), but to accept all its synonyms: change, alteration, revolution, upheaval, transformation, metamorphosis, breakthrough; new measures, new methods, modernization, novelty, newness; creativity, originality, ingenuity, inspiration, inventiveness, shake up.

Mariana has authored a significant article on innovation, titled Innovation: what's in that little, trendy, sexy word, wherein she examines an innovator's determinant factors to survive and grow in downturns. She believes cash flow and balanced (or lean) costs are the two significant factors that can either make or break a company. Further, she alludes that during such periods, a company's capacity to innovate takes its maximum weight, as it supports and increase in productivity based in the human capital.

Which brings us back to the image that I have shared at the beginning from her article wherein she defines a company's Innovation Capacity.

Innovation Capacity =
Employees' Brain Preferences + Innovative Work Behaviors + Innovation Practices

Mariana has conducted extensive research on each element that will induce large Innovation Capacity - by encouraging employees to be more creative and providing them opportunities to experiment, rewarding innovative work behaviors that result in successes, and implementing real innovation practices that allows you to build an innovation factory.

Mariana postulates that innovation is about looking ahead, projecting the future, identifying future needs and creating solutions for those needs. By doing so, a company leads the future in its sector, leaving competitors behind. In other words, ***innovation is about creating the future.***

A pertinent example provided is of PROCESOi:

"At PROCESOi we consider innovation to be a strategy, to increase a companies' present value, keep it ahead of its competitors and create sustainable growth.

Innovation is a three-phase process:

Phase 1: Spark: innovation surges due to an interest, inquisitiveness or concern about the present situation.

Phase 2: Creation: unrest or problems can lead to brainstorming, and the unleashing of imagination to reach a solution or identify an opportunity that had not previously been apparent.

Phase 3: **Implementation:** when the solution or opportunity is identified, an investment is made to make it happen with the aim of generating new income."

I commend Mariana and her team for the work she has undertaken, and creating a benchmark for measuring the Innovation Capacity. She even defines an innovator (although earlier she did not want to define innovation): "*An innovator is defined, as an* *individual, who has a global way of thinking, is intuitive, takes risks, is imaginative, and often breaks the rules."*

In short, this article by Mariana is a must read for CEOs, Innovators, Entrepreneurs and Leaders, and is sure to provide you key takeaways towards driving innovation in this tough economic environment.

Mariana sums up her article with these lasting words: "innovation is a synonym for Joy and Happiness, and should not be made a "serious business strategy". Joy, because creating, learning, making mistakes is fun, and happiness because achieving far-fetched, almost unbelievable results makes everybody happy. Don't just take my word, ask Steve Jobs."

References:
http://www.techmankanata.com/ar-104-pg-1/Innovation-whats-in-that-little-trendy.htm

Chapter 23

Innovation insights and wisdom from the greatest innovators

"My greatest challenge has been to change the mindset of people. Mindsets play strange tricks on us. We see things the way our minds have instructed our eyes to see." - **Muhammad Yunus, Nobel Peace Prize winner**, Bangladeshi banker, economist, and innovator of microcredit loans. These microcredit loans are given to entrepreneurs too poor to qualify for traditional bank loans. (It's about time U.S. banks begin to microfinance loans to entrepreneurs who can help turn the economy around.)

In 1976, during visits to the poorest households in the village of Jobra near Chittagong University, Yunus discovered that very small loans could make a disproportionate difference to a poor person. Jobra women who made bamboo furniture had to take out usurious loans for buying bamboo, to pay their profits to the moneylenders. His first loan, consisting of USD 27.00 from his own pocket, was made to 42 women in the village, who made a net profit of BDT 0.50 (USD 0.02) each on the loan. Thus, vastly improving Bangladesh's ability to export and import as it did in the past, resulting in a greater form of globalization and economic status. (Imagine if the Jobra women in Bangladesh can create real product such as bamboo furniture with small loans, what can entrepreneurs do with small loans given out to create new products in energy, environment and education.)

Muhammad Yunus was awarded the 2006 Nobel Peace Prize, along with Grameen Bank (who he founded), for their efforts to create economic and social development. In the prize announcement The Norwegian Nobel Committee mentioned:[1]

"Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. **Loans to poor people without any financial security had appeared to be an impossible idea**. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed micro-credit into an ever more important instrument in the struggle against poverty."

Muhammad Yunus is a modern day innovator, who had the foresight and insight to provide opportunities in the form of microcredits to the poor women in Bangladesh, who were anything but poor in their entrepreneurship drive, and aptly turned these microloans into innovations.

An age old innovator, **Leonardo Da Vinci**, shared his wisdom by telling us: "There are three classes of people: Those who see. Those who see when they are shown. Those who do not see." Innovators foresee. Innovators see beyond the ordinary, and yet have uncanny common sense. Leonardo has often been described as the archetype of the renaissance man, a man whose unquenchable curiosity was equaled only by his powers of invention (1.). Leonardo's approach to science was an observational one: he tried to understand a phenomenon by describing and depicting it in utmost detail, and did not emphasize experiments or theoretical explanation.

Thomas Alva Edison, inventor of the light bulb and phonograph, an innovator unlike any other, and founder of GE, shared this insight: "I never perfected an invention that I did not think about in terms of the service it might give to others." He goes on to say, "The three things that most essential to achievement are common sense, hard work and stick-to-it-iv-ness". And of course, his most famous quote used by magazines and leaders all over the world is: "Genius is one percent inspiration, and ninety-nine percent perspiration." He was one of the first inventors to apply the principles of mass production and large teamwork to the process of invention, and therefore is often credited with the creation of the first industrial research laboratory.

"Think big, think fast, think ahead. Ideas are no one's monopoly," is a famous quote by an entrepreneur from India, credited with the modernisation of Indian textile and petrochemical industry, and whose rags to riches story has made him a cult figure in the minds of Indian people. **Dhirubhai Ambani**, founder of Vimal, Reliance Textiles and Reliance Commercial Corporation, is an innovator behind the multi-billion dollar Reliance Industries in India. Mr. Ambani, who began his occupation with a salary of Rs. 300 (about $7), grew his business by taking risks, building inventories, anticipating price rise, and reaping profits. In the year 1975, a Technical team from the World Bank visited the Reliance Textiles' Manufacturing unit, certified as "excellent even by developed country standards" during that period. "Pursue your goals even in the face of difficulties, and convert adversities into opportunities." - Ambani never gave in or gave up during his storied entrepreneurship career and always thought BIG, and forever inspired Indians to become modern day innovators.

Innovations necessitate lots of failed experiments and hard work to uncover the latent customer need. Innovations require processes to think creatively, ideate and experiment. Build an Innovation Factory, Learn to be an Innovator, Launch new Innovations by signing up for the Innovation Bootcamp.

References:
http://en.wikipedia.org
1. Gardner, Helen (1970), *Art through the Ages*, Harcourt, Brace and World

Chapter 24

Turn Complaints Into Solutions, Innovations and Success

So you want to complain today about your work, your boss, the economy, the weather, your spouse, your children, the presidency, the country, and on and on. Just ask yourself: What good does the complaint do? Does it actually solve the underlying issue you are grappling with? Or is it helping you vent out at something or somebody? Remember the golden rule: Stop Complaining, Start Living. Or was it: Stop Worrying, Start Living. You get the point.

Jon Gordon has written this amazing little book titled: "The No Complaining Rule" that tells us how to turn every complaint into an opportunity and converting negativity into positive actions. Easier said than done, you may say. However, Jon gives us a plan to make this happen, and leads us into this plan by telling us a real story about Hope, the VP of Human Resources at EZ Tech, who is facing a personal health crisis, is suffering from a separation from her husband, is raising two children who have begun distancing themselves from their "ever complaining" mom, and to top all these, is charged to put together a plan at her workplace to turnaround the company from a product and underlying confidence crisis. When it rains it pours. But Hope not only manages to find the way using the "No Complaining Rule", but also leverages innovative ideas and practical strategies to put her life and work on track.

How does Hope make this happen? You have to read the book to find out.

However, I am able to share with you the following story that Jon shared with us, and the key points of the personal action plan that Jon has provided in the last chapter of the book.

First the story:

Positive Ways to Deal with Negativity

With the mortgage meltdown, floods in the Midwest, $4 a gallon for gas, food prices, the economy, famine, war in Iraq, etc., many would agree that there is a lot of negativity in the world and certainly a lot to complain about. And yet, while traveling the country this past month, ironically for the No Complaining Rule Tour, I met a number of people who inspired me with the positive ways they were dealing with the negativity in their life. In spite of their circumstances they chose to view their situation with a positive perspective… which so often makes all the difference. Since we all could benefit from their example, here are 5 positive ways to deal with negativity.

1. Find the Gift - Richard Bach said every problem has a gift for you in its hands. One woman came up to me and said that because of the cost of gas her family is driving less and as a result they are spending more time at home and having dinner together more often. She said this “negative” situation has been very “positive” for her family. Another person said he is taking the bus to work instead of driving and as a result he has met a lot of interesting people.

2. Look at the Bright Side - One gentlemen joked that because of the cost of gas he now has a great excuse to not drive and see his negative relatives.

3. Zoom Focus - It doesn’t matter what the pundits say on television. It doesn’t matter what Joe and Sally in your office are doing. It doesn’t matter who is playing office politics. All that matters is what you do every day to grow yourself and your business. Focus on being positive and taking positive action every day. Be like the real estate agent who told me that he doesn’t focus on what the news and newspapers say. He focuses on what he can do every day to be successful. He focuses on marketing his business, taking care of his clients, and building loyal relationships. What things do you need to Zoom Focus on?

4. Focus on the Opportunity Not the Challenge <!--[if !vml]--> - Behind every innovation and solution is a story about someone who said there has to be a better way. I bet Henry Ford was walking behind a horse when he had the idea for his automobile. History shows us that a lot of people and a lot of companies make a lot of money during recessions. The key is to find the opportunity. Where is the market heading? What do people want and need? What will they want in the future? Now is a great time to build a positive team with great talent. Now is the time to gain market share while so many give up. Now is a great time to determine who is on *your bus* and who is off *your bus*. Now is the time to be indispensable to your company and demonstrate how valuable you are.

5. Be a Positive Influence on Others - I received an email from Ruthanne in Cedar Rapids, Iowa. She wrote:

“As you are probably aware, we were recently hit with a 500 year flood. My neighborhood was impacted the worst and most of our homes, mine included, are a total loss. People tell me I have been the most positive person they know who was directly impacted by the flood. I don’t have a lot of time today (first day back at work in 2 wks) to tell you all the positive things that have been going on in our city and in my life, but I will be writing an article when this is all over with. I did want to say though that I have not complained throughout all the devastating catastrophe because of the knowledge I learned both from your seminar, books and newsletters.”

Ruthanne could have chosen to wallow in self pity and negativity but instead she chose to deal with her negative situation by being a positive influence on others. Think about how many people she is positively impacting in her community. Now think about the positive influence you can have on people at work, in your community and at home.

Every day simply ask yourself “How can I be a positive influence where I am, right now?”

Stay Positive!

-Jon

Now, the 7-day personal action plan from the book:

Day 1: **Monitor your thoughts and words**
Day 2: **Make a Gratitude List**
Day 3: **Take a Thank-You Walk**
Day 4: **Focus on the Good Stuff**
Day 5: **Start a Success Journal**
Day 6: **Let Go**
Day 7: **Breathe (and pray and meditate)**

Bottomline:

If every employee at your workplace comes to work energized, positive and relaxed, and does not complain, and always tries to find a solution to a problem - imagine the creativity and innovation that you will be able to unleash through this employee's effort, and the whole team, the department and the entire company. It is that simple, and yet the employee morale, spirit and confidence become huge issues for many companies. Jon shows us the path to success in his latest book "The No Complaining Rule" by turning those complaints into innovative solutions.

References:
Jon Gordan: The No Complaining Rule

Chapter 25

Why Some Ideas Survive and Others Die

Chip Heath and Dan Heath have introduced a new "sticky guide" on making your ideas stick, and eliminating the ones that ought to die. How do you make your ideas stick or prevail (without being a dictator)? Just today, I was trying to make my thirteen year old son do some backyard work (cleaning the table, chair, moving the garbage bins, and picking up our dog's poop). As a dad, I asked him twice to do this chore (and forgot that this was a weekend when he wanted to relax a bit). He told me he already did the work (he had only partially done the work). Finally, I had to raise my voice and even yell at him to get up and go out, and finish the work. Which he did, albeit grudgingly. Imagine trying to do this at work. Imagine yelling at your employees and telling them to do their work, when they are not interested or busy doing something else. Either your employee will quit on you, or worse yet, complain against you with Human Resources (and may even sue you). Would you yell at your customers to buy your products or services? "Hey you, you must buy this NOW. I ASK YOU TO BUY THIS PRODUCT NOW!!" Sure, Mr. Customer will buy the products, but your competition's instead, even if it was expensive or not to their best needs. What is wrong with this picture? We are trying to dictate our ideas, our thoughts, our actions, our products, our services down to our recipients. How far can you succeed with this approach? Not far. This is a recipe for failure.

The real challenge is to transform the way people do things, act, work, live their lives. Your customers are busy with their work solving their everyday problems, inspiring their employees to work harder and be more productive, implementing processes to streamline operations and reduce costs, and creating their own important products and services that will make a difference in their customers' lives and work. And the cycle continues.

Netflix had a simple idea: NO LATE FEES. Why was this simple? Because customers hated late fees when they rented their movies (because there was always a due date for returning the movies). Customers loved their movies, but simply hated to pay extra fees when they were late (remember haggling with the checkout desk at Blockbuster over your late fees). However, Blockbuster made a lot of money from late fees; except, it was out of touch with its customers. Netflix innovated with this simple idea of no late fees and no due date, and created the largest online movie rental business that boasts 10 million subscribers today. Blockbuster is filing bankruptcy this year because it is not able to survive on its antiquated business model. Call it Netflix's creativity, or Blockbuster's ineptitude. After all, Blockbuster still has the largest movie rental business; one small fact: it's not profitable.

In "Made to Stick", authors Chip Heath and Dan Heath provide us six key qualities of an idea that is made to stick:

1. Simplicity: "How do you strip an idea to its core without turning it into a silly sound bite?"
Authors give examples of army commanders when they choose simple battle plans at war, Southwest Airlines focus on being "THE low fare airline", or then presidential candidate Bill Clinton's simple campaign strategy on "It's the economy, stupid." Keep it simple! Simplicity sticks if it is done right and communicated effectively. Frequently, CEOs and leaders alike fall in the trap of creating complexities, and even creating processes to block creativity and innovation.

2. Unexpectedness
"How do you capture people's attention and hold it?" When you are taking some one's photo, how long is their attention span? A few seconds (unless you are an actor or a politician). Do you remember yesterday's news? Do you even remember what you did last weekend or the weekend before? Here's a question: Who is the second largest maker of MP3 players after the Apple iPod? Chances are you don't even know this. Authors give example of Nordstorm on how they "shock new employees into embracing high customer service standards."

3. Concreteness
"How do you help people understand your idea and remember it much later?" The best innovators are our school teachers - the good ones. They help us understand new concepts, languages, mathematics, sciences, and more, and through the rigorous process of teaching (and learning), help us remember this throughout the school year. Except when summer vacation comes, and we begin to forget what we learnt except for concrete things such as subtraction, addition, some science principles. Authors provide example of an elementary school teacher who helped students overcome racial barriers by creating a "brown eye, blue eye" experiment in her classroom. A simple exercise such as writing down all the white things you know, and then all the white things in your refrigerator shows how you remember concrete things.

4. Credibility
"How do you get people to believe in your idea?" Easier said than done. Make ideas credible and trustworthy. Credibility comes from success stories. From your customers who are trying out your ideas, and providing you valuable feedback. From your sharing this feedback with new customers, and improving your products. Credibility takes time to build. It is sort of a reference check when you meet someone new. You have no clue as to that person's credibility. So you ask around, and do some background check. But what if someone else is trying hard to make you less credible. Well, your work even becomes harder. Whenever you are competing against an established brand or market share leader,

how do you get your customers to believe in you? By offering a better product, a differentiated product, a lower cost product perhaps.

5. Emotional
"How do you get people to care about your idea?" This one is tricky. You are trying to appeal to the human side of the brain, the one that is more tuned to emotions and mood. Authors give an example of a donation survey and how most people have something in common to Mother Teresa: When it comes to our hearts, one individual trumps the masses. Authors show that products or services must appeal to people's emotions, and should create an effect that is memorable. Make your ideas memorable. What drives you to work every morning? What drives you to go play golf on weekends? What drives you to buy the car of your dreams? In as much as you can separate the analytical mind from the emotional, and capture the imagination, your ideas will be successful. Authors examine psychologist Abraham Maslow's research on what motivates people, and share with us the needs and desires that people try to fulfill:

- Transcendence: help others realize their potential
- Self-actualization: realize our own potential, self-fulfillment, peak experiences
- Aesthetic: symmetry, order, beauty, balance
- Learning: know, understand, mentally connect
- Esteem: achieve, be competent, gain approval, independence, status
- Belonging: love, family, friends, affection
- Security: protection, safety, stability
- Physical: hunger, thirst, bodily comfort

6. Stories
"How do you get people to act on your idea?" Definitely not by dictating. However, by influencing, by friendly cajoling, by reminding, and by showing examples of successes. What stories do you hear around your workplace? Are your customers happy? Do they call you and thank you for the products and services? Would they refer you new business? Are your employees inspired to come to work each day? Are your customers inspired to do business with you? Are their stories about transformation in the way your customers work and act that are profound, memorable and worth sharing? The more stories about the positive effects of your products on your customers' needs and wants, the better your ideas become. Authors give example of Jared, the now Subway spokes person, who actually lost weight by eating healthy sandwiches at Subway, and how Subway signed him up to talk about his story. How inspiring was his story to the rest of us? Did you go to Subway to eat a healthy sandwich and remember Jared?

Mark Twain once observed: "A lie can get halfway around the world before the truth can even get its boots on." This is true of the world we live in. A bad experience, a half-lie, a real lie, a rumor travels fast and furious especially in the connected world we live in. And as a business, you have to be on top of this so that real stories are being shared about your ideas and successes, and not the perceived ones.

The authors conclude by providing sticky advice to managers, teachers, and everyone on how to make our ideas stick - create a strategy for your work team, avoid three barriers that kill communication, make your lessons stick, and even unstick a sticky deal.

I highly recommend "Made to Stick" to business managers, leaders, CEOs and innovators alike. It is a guide you can reference meaningfully as you change your business, spark new ideas and jump start innovations - build that innovation factory.

References:
"Why Some Ideas Survive and Others Die - Made to Stick" - Chip Heath & Dan Heath

Chapter 26

Ten Answers For Driving Innovation And Growth

What do Allianz Group, Apple Inc. (NASDAQ: AAPL), Axe, GE Healthcare (NYSE: GE), BMW, Proctor & Gamble (NYSE: PG), Starbucks (NASDAQ: SBUX), and Netflix have in common? These innovators consistently and successfully bring to market winning innovations, achieve profitable new growth, and reinvent their business for the future.

Erich Joachimsthaler, founder and CEO of Vivaldi Partners, a strategy, innovation and marketing consulting company, in his newly published book - ***Hidden In Plain Sight : How to find and execute your company's next big growth strategy*** - provides us insightful answers to real questions facing businesses today: on creating successful innovations and driving profitable growth - by introducing a new methodology "demand-first innovation and growth" (DIG). Joachimsthaler purports a poignant view of the misplaced state of innovation in the broader market.

I was able to obtain a copy of Hidden In Plain Sight from Harvard Business School Press publicist Michelle Morgan. Michelle also introduced me to Joachimsthaler. Rather than indulge you with my analysis and thoughts on this must-read innovation book and the three-part method of the DIG model, I wanted to share with you something even better: *Top Ten Answers from Erich Joachimsthaler himself on my most pressing questions*.

Without further ado:

Top Questions and Answers For Driving Innovation And Growth:

Question #1: Hidden in Plain Sight
Why are key opportunities for innovation and growth hidden in plain sight? Do companies even know about this?

Erich Joachimsthaler: In the book, I discuss ***four reasons*** why opportunities are hidden in plain sight. **First**, is the fact that growing a company requires establishing processes, systems, and procedures. Growth requires that work is divided into divisions or business units which fragments a company's view of the customer. **Second**, are strategic considerations. Company often follow mantra's like: stick to the knitting and therefore continue to invest into a direction that has proven to be right in the past. **Third**, and this is the most important reason is that American companies today live comfortably in the world of either the product perspective or the customer perspective. That is, there is either a mentality of looking at the world from the product perspective or the customer perspective. Both of the perspectives have one central tenet that underlies them. It is the need-fulfillment paradigm. Find a need and fill it. The problem is that this model is not only obsolete, it is generic and geriatric – time to retire it and send it to Florida. We are facing a dilemma in mammoth proportion in America. Companies need to learn and accept that we are in a world of product proliferation where we already have served nearly every need several times over, where there are over 50 varieties of bottled water, over 78 different Lay's chip varieties, over 29 varieties of Pop Tarts and over 20 different milk types – no longer the company is in charge, but the customer. **Fourth**, success begets success. Success also infuses a company with an inside-out perspective. Often times, companies not only don't see the opportunities, they often don't know about them in the first place.

Question #2: Fallacy

"We are differentiating our products from competitors' offerings, segmenting the marketplace to identify new customers or consumers, growing through mergers and acquisitions, developing brand new products and extending brands, and actively listening to customers or consumers. We have everything in place to be successful." Is this a fallacy?

Erich Joachimsthaler: Yes, this is exactly and precisely the problem. These practices are the practices that have worked in the past – they have worked during the years where consumers were in search of products and services, where consumers found the station breaks on TV a form of entertainment. Companies are wrong in thinking that listening to consumers is equal to understanding. The problem of huge proportions that American businesses are facing is the fact that our fundamental paradigm of business, the very essence and foundation of what creates the success for business until today is now in question. You have to abandon the simplistic notion of the need-fulfillment paradigm. The complexities of today's consumers can no longer be measured in terms of a set of attributes, product or brand attributes, that need to be fulfilled or exceeded and that ensures commercial success. You follow this paradigm and you are more likely competing based on features in commodity hell than building a profitable growth business. We have got to retire the outdated notions that the need-fulfillment paradigm serves any useful purpose today in the day and age where over 95 percent of all new products fail within the first year. You have also got to retire the basic notion that consumers can tell you what they want. *I am of the opinion that consumers can not know what they have not experienced.* It is important that we are not consumer-led, not marketing-led and not product or technology led – we have got to find a new approach to growth which is described in my book.

Question #3: Outside In

Why is it important for a company to look from the outside in and let go of existing processes and models?

Erich Joachimsthaler: It is a natural human tendency to pursue patterns that have worked and that have made us successful. It is only natural, therefore, that Sony looks at the world in terms of finding more customers for the Walkman. After all, the Walkman has been a huge success and why would hundreds of millions of Walkmans sold be wrong. But this very success can blind executives in not seeing the biggest opportunities in plain sight.

And outside-in perspective, and be mindful, I do not mean a customer perspective, can provide an unbiased and untainted view of the opportunities that a company has. It is a hard thing to do, though.

Question #4: Customer Advantage

What is Customer Advantage? Is it the same as profitably serving the needs and want of my customers - aka maximizing gains from customers?

Erich Joachimsthaler: Precisely not! Profitably serving the needs and wants of customers is a notion that is reminiscent of the need-fulfillment paradigm. The corollary is that one can profitably serve consumers needs and wants if one has something that is different from competitors and competitors can not right away copy it. Today, the notions of competitive advantage, of differentiation for the sake of differentiation and of serving customers to delight them need to be questioned. Remember the highly differentiated Iridium phone service, a brick-size phone that had an antenna the size of a base ball bat. It came with a 3,000 dollars basic plan plus 7 dollars per minute of calling. Calling of course required that one needed to step outside a building as it would not work inside, and one needed to be clear of buildings after all. Motorola spent billions of dollars in it and there was an enormous conviction that there will be a big market. And it was extremely differentiated. Or do you remember and equally highly touted and buzzed up, hyped up new product, the Segway Personal Transporter, it was highly differentiated and was to change the way we walk and stroll or transport ourselves from point A to point B. There was also a conviction from study after study with consumers that there was a big market. Right? Now, we live in an age where the iPod has become the big success. Now, if differentiation is so important? Can you tell me what the No. 2 MP3 player is? Or No. 3? Then, iPod is differentiated from what? How about the so important iTunes downloadable service? If iTunes is the No. 1 downloading service for music? What is the No. 2 or 3? Have you ever bothered comparing any of the services? That's my point. I bet you can't give the answers, because when you achieve customer advantage, the comparison is irrelevant. People have absorbed and assimilated the iPod into their lives.

We live many more minutes of our 1,440 minutes we all live from midnight to midnight with our iPods – ***and that is customer advantage*** – ***it is how your product fits into the everyday life of consumers***. It is not the simplistic notion of how much my product or brand is different from competitors.

Question #5: Changing Ecosystem of Demand

What is the changing ecosystem of demand? How do Procter & Gamble and GE address this?

Erich Joachimsthaler: The ecosystem of demand paradigm changes the simplistic need-fulfillment paradigm. It maps the complexities of the everyday lives. Importantly, is the mapping process itself. It does not start with identifying needs and wants using some sort of ganglion marketing research procedure. Instead, *it begins with mapping the everyday life of consumers in the case of P&G or customers for GE*. The starting point is the GAP or Goals, Activities and Priorities of people. This is the gap that the current product perspectives and the current dominant consumer perspectives totally miss. The GAP is what really matters, here and now, today in the everyday life of consumers. The GAP is however only the starting point. It is only useful if one sees the GAP in the context, the social-cultural context in which one lives. Context is everything! The GAP then focuses on behaviors and we study the behaviors in the context in which they occur. This is a crucial aspect of our model. We believe that the best predictor of behavior is behavior, not attitudes and not opinions or brand reputations. It is as simple as this and it is as complex as this. Starting with this behavioral perspective – what really matters to consumers in their everyday life, we explore unarticulated needs and wants, but also urges, passions, fantasies and desires. As you progress with putting layer and layer of complexity on understanding the demand landscape from this perspective, the contours of the ecosystem of demand emerge. It is powerful rendition of where the opportunities for the business lie. So, you think this is a bit too complex, everything has to be simple. Frankly speaking, I disagree. Remember, we are talking about your wife or your husband or your next door neighbor, would you agree with me that we do not live around simple people? We have got to abandon the simplistic notions of consumer demand that exists today.

How did GE or P&G do it? To begin with, both companies began observing their consumers without the biases of their own products and brands. This has been a near revolution at these companies. Both stories are well described in the book. GE Healthcare for example studied anesthesiologists and their behaviors during key surgical procedures in the operating room. P&G studied people around their everyday lives around their home, not simply when they were scrubbing the bathroom floors. These companies also learned that they needed to reframe their existing businesses and categories and pursue entire new thinking routines in order to really understand their businesses better. An important aspect of their success has been that the new insights from the research led to an entire new search of helping consumers or anesthesiologists that involved multiple businesses inside the company and even communities from outside the company. And even more importantly the entire strategic blueprint for action – in the case of P&G, its marketing model has changed. Today, P&G seeks one to one relationships with over 60 million households in America (more than every second household), it has established their own presence on Second Life, it has established their own social networking sites, it is revamping the entire marketing success model that it itself developed and perfected over the last fifty years.

Question #6: DIG

What is DIG, and how is it different from my company's innovation model?

Erich Joachimsthaler: *The DIG model is a systematic, systemic and repeatable process to identify and executive innovation and growth strategies*. It replaces the existing model of SAV or screwing around vigorously, sometimes also called the fuzzy front end of existing innovation models. In the fuzzy front end, one searches wildly for ideas that then can be put through the classic stage-gate process of new product development. In the DIG model, the focus is not on the product, it is on finding ways of creating a transformational change in consumers' everyday life. Therefore, the innovation can be a product, a solution, a new technology, a business model, or no product at all. And because it is a process, there is a chance of winning again and again, of repeating the success. It does not rely on the occasional brilliance of one particular executive.

Question #7: Demand Landscape

Can a company still succeed if it cannot create a complete demand landscape? How did Frito-Lay stay on top of high-profile customer trends by creating a complete demand landscape?

Erich Joachimsthaler: Yes, in reality, we cannot completely map the entire ecosystem of consumer demand – it is an evolving process. We prefer to get a very good rendition of the contours of the demand landscape, then dig deep – hence the acronym DIG. We do always focus on a specific component of it first – what we call the demand landscape. At Frito-Lay we identified the moments around which Lays is currently consumed during the 1,440 minutes we all live. We then identified other moments in everyday life that are relevant. We then analyzed the trends in each of the moments. For example, a moment in the office is impacted by different trends than a moment at home or on the go. And mind you, we did not begin with deep dive of people's psychology around snacking and studying product attribute configuration or emotional drivers of the Lays' consumption experience.

Question #8: Allianz Opportunity Space

How and why did Allianz reframe the opportunity space? Was this needed? Was Allianz successful?

Erich Joachimsthaler: In the case of Allianz, the emphasis was on reframing the opportunity space. This was so because in the insurance business, particularly the personal liability insurance business, there was the feeling that there were no innovations possible. It is an old and very traditional business. It is a business that matured and consumers simply buy based on the lowest price or annual fee.

At Allianz, the personal liability business was important to the company. Allianz was by far the leader in the market with a significant price premium. Where do you go from here? The feeling was that new competitors only force the market into the wrong direction - lower prices and cheapened services through telephone trees and outsourcing arrangements in low-cost countries.

Allianz was able to rethink the entire personal liability business and it was done not simply based on largely visionary ideas but forty concrete innovations that the executives in part themselves came up with, by looking at the demand landscape in totally new ways – using the **12 BIG (breakthrough innovation and growth) lenses** that are described in the book.

Question #9: BMW Customer Advantage

How does BMW create sustainable Customer Advantage? What could BMW do differently?

Erich Joachimsthaler: The BMW story in the book describes how this company has understood their demand landscape and how it has developed a portfolio of cars ranging from the BMW brand, the MINI brand to the Rolls Royce brand – a premium car manufacturer that sells over a million automobiles! The chapter in the book describes how the company has developed a ***strategic blueprint for action*** (the third component of the DIG model), that captures a relevant part of the ecosystem of demand. In this example, the component of the blueprint described is the company's world-class brand management system. You will learn how the company adopted an entire new model of branding for the MINI than the success model it used for the BMW brand. And hence, they have drawn in different consumers for the MINI brand than for the BMW brands. The chapter illustrates how the DIG model opens up strategic options for building profitable growth that one would not otherwise see from a traditional business as usual perspective. At BMW, the innovation, the breakthrough was not another technology, but the innovation was about the *brand management approach* and how it created a deeper affiliation and hence customer advantage.

BMW has done a lot of things right and what they can do differently now is never ever forget and be mindful that innovation – even at BMW where innovation has such a strong technology core – goes far beyond its habitual technology domain and into brand management, design, and new business models. I think the story in the chapter vividly describes this BMW difference.

Question #10: Apple’s Innovation and Growth

What drives Apple's innovation and growth? Is Apple better at connecting with and engaging consumers?

Erich Joachimsthaler: *Apple’s innovation and growth is first and foremost driven by inner conviction about the outer world* – a conviction that is manifested by Steve Jobs and largely led by him and people around him.

This conviction is about changing how consumers live around music or entertainment. It is not merely a product focus, although it might appear this way. Apple has created the transformational change that I talk about in the book, it has created the customer advantage as I define it. It has changed the way we find out about music, the way we select music, buy music, listen to music, store music and discard music – in short, it has changed how we manage music in our lives (something that is fairly important to all of us), it also has changed how we manage video, etc.

It is not merely a better experience from competitor X, but it is a transformation of our lives, a part of our lives and Apple moves on doing the same with our entire digital lives, watch the launches of iTV and iPhone.

If Apple merely would define a set of needs and wants and then seek to fulfill it, they would ask consumers what they like or dislike about the Walkman and then create a better Walkman. I think that model of need-fulfillment paradigm is NOT at the core of the Apple process. Instead, Apple develops a notion of the changing consumer landscape. Think about around 2000 or 2001, there were already some consumers who downloaded songs from Napster and Kazaa. They see how the demand landscape is changing and they develop their own thinking, what I call structured thinking, around how to create a transformative experience for consumers. They don’t rely solely on consumer input and focus groups. In the process, Steve Jobs reframes the entire opportunity space for Apple – from a computer company, to a music company (Apple happens to be now one of the largest music retailers), to be an entertainment company. You ask about connecting with consumers? What would Madison Avenue recommend you? They would say: you need to find an emotional message that creates a connection with the consumers – touting functional and emotional benefits and achieve a clear positioning relative to competitors. How would that look like? Most likely a message, communicated over TV that clearly explains the principal benefits and the reasons to believe this benefits to targeted consumers. What would a marketer recommend? He or she would recommend that Apple segments the market into those who like more noisy music versus the sophisticated music lover who perhaps listen to classic music. And if you look at what Apple did, it seems they have followed little of the standard advice from marketers or advertising professionals. Connection and engagement does not happen on the small screen, the TV set or the large screen, but it happens in the 1,440 minutes where consumers live and work and play. Engagement and connection for Apple has nothing to do with emotionalizing the difference of iPod over the Walkman or touting superior product attributes. Look at their advertisements. Their marketing program or advertising program cannot be printed on paper or shown in little films called TV or cinema spots. Their program of connecting with consumers is about the 2,000 accessories that they have licensed to Bose and other companies so that we can absorb and assimilate the iPod into our 1,400 minutes we all live every day.

All Important Question: Top Three Takeaways

What are the top three takeaways from Hidden in Plain Sight that help companies internalize the DIG agenda?

Erich Joachimsthaler: The important takeaways are:
1) Innovation and growth is not a fuzzy process of screwing around vigorously (SAV) but can be a systematic process,
2) Innovation and growth is not something that happens in a department like R&D or product development – innovation and growth is a company-wide activity and only if you have a process can you also engage the entire organization,
3) Innovation and growth is not about products or solutions – it is about creating a transformational change in the way people live, work and play – and in order to achieve that, the innovation can be a product, a solution, a technology and new business model like at Netflix or no product at all. It could even just be a management innovation like brand management at BMW or a better supply chain management process.

If you follow these three takeaways, there is a chance to win again and again and to achieve a larger transformation of your company, and reinvention of the business for the future.

Acknowledgements:

Erich Joachimsthaler: Hidden In Plain Sight - How to find and execute your company's next big growth strategy
http://www.amazon.com/exec/obidos/tg/detail/-/1422101657/ref=pd_sl_aw_open-1_book_32349806_5

HBR IdeaCast with Erich Joachimsthaler
http://harvardbusinessonline.hbsp.harvard.edu/b01/en/hbr/hbr_ideacast.jhtml

Chapter 27

Strategic Innovation at Deloitte - The "Apple" of Services Innovation

Accounting and Innovation - Isn't that an Oxymoron?

Rick Rayson, Managing Partner, Orange County, Deloitte and Touche LLP, doesn't believe so. As a matter of fact, Rick tries to convince you otherwise - even goes as far as making you believe that accounting innovation can be "sexy". Well, sort of!

I had the first-hand opportunity to meet and hear Rick speak eloquently at last week's University of California, Irvine, Paul Merage School of Business hosted Dean's Leadership Circle event. Rick was the keynote speaker, introduced by the charismatic Dean of the UCI Business School, Andy Policano. I also spent some time with Rick after the event and was able to gain some real world insights.

Rick spoke about "*Strategic Innovation at Deloitte*". And he brought home many key points on what drives innovation at Deloitte, and how innovation drives business. Deloitte is a worldwide organization consisting of some 147,000 employees (talent), with offices in more than 140 countries, aggregate revenues of $23.1 billion in fiscal year 2007, and serving more than 80% of the 2007 Fortune Global 500.

Deloitte's marketplace competitors include Accenture, PriceWaterhouseCoopers, KPMG, Ernst & Young, Mercer, Towers Perrin, and IBM (NYSE: IBM). IBM is one of the Top 20 Innovators of The Innovation Index.

Why is Strategic Innovation imperative at Deloitte?

It has to do with achieving Deloitte's vision:

To be the First Choice of:

* The world's most coveted talent

* The most sought-after clients

In his speech, Rick addressed how most product companies innovate by filtering the exceptional opportunities from the utterly raw and mundane (unblocking creativity and innovation), by managing various levels of uncertainty and investment requirements towards creating new innovations while mitigating risks (process innovation), and by looking at the "horizon perspective" as created by Karl Ulrich, CIBC Professor, Wharton School of the University of Pennsylvania (six ways to find innovation).

Professional Services Innovation

According to Rick, "Professional service firms like Deloitte have enjoyed recent macro economic changes brought on by extraordinary technological and regulatory developments such as the ERP, reengineering and Y2K craze of the mid to late 90's and the requirements of Sarbanes Oxley legislation and regulations since 2002. The question really is "*What's Next*". **A key part of Deloitte's strategy is to develop new services, new ways to serve our clients and new ways to attract, develop and retain the talent we must have for this growth."** This is Deloitte's Innovation and Creativity strategy to match its bold vision.

"*To develop new services, new ways to serve our clients and new ways to attract, develop and retain the talent we must have for this growth*"

Three Investments are paramount to Deloitte's success: New Services, New Ways to serve, New Ways to growing talent

Rick articulates and simplifies this key Deloitte strategy further and ties it back to Deloitte's vision:

Deloitte has an urgent need to innovate on two fronts:
* In our services to clients (for their often unusual or difficult problems), and
* In our internal talent management and execution (while facing a shrinking talent pool and competition to recruit and harness the best talent).

Two forces drive the need for innovation at Deloitte:
* The need to provide outstanding client service, and
* The need to maintain a pool of top talent to provide that service.

"Edge" Drives Innovation

According to Rick, Innovation at Deloitte is driven by the thousands of talented people working at the "edge" on client service engagements. Deloitte innovates by harnessing innovation that happens at the edge, bringing it back to the core, and then pushing it back out to the edge. Compare this to product companies where innovation is driven at times by the core.

Deloitte consultants continually think of new ways to help solve their clients' business problems by leveraging thousands of experiments in the field. Innovation for Deloitte is about **accelerating the process of finding and refining good ideas at the core, and**

then pushing them back out to the edge – speeding up the process of turning personal innovation that happens in the field into institutionalized innovation that can be systematically delivered to our clients.

Deloitte recognizes challenges to this "Edge" model. Specifically, on how to find ways to efficiently and effectively commercialize the ideas happening at the “edge.” Deloitte has created Talent Innovation centers, and Strategy, Research and Innovation Groups, Innovation Quests, and Centers of Excellence as part of the **Client Innovation Services** to create game changing innovations.

One of the interesting creations is the **Enterprise Value Map**: a tool that gives a comprehensive view of all the drivers of value in an organization. It has now morphed into a comprehensive Value Map that all Deloitte clients benefit from.

Talent Innovation

Deloitte has tried hard to create a "youthful" yet "energetic" image of a company on the move towards hiring new talent, by developing innovative approaches to the attraction, retention and development of key talent. From a different approach to career management, to dealing with generational differences, to women and diversity needs, and fostering a culture of learning and coaching - Deloitte does all of the above to harness world class talent. Deloitte consistently ranks in the 100 best places to work, and 50 best places to launch a career.

Internal Innovations driven by India Team

Deloitte started to move services in India in 2000, making it one of the first professional services firms to create an offshore India center.
The key Deloitte difference:
Not just offshoring of back-office but also client-facing functions, all delivered with high standards of quality that Deloitte is known for.
The lower cost of employing talent in India has a significant impact on ROI; at the same time, the high quality work delivered by the offshore group has a significant impact on Deloitte's growth.

The Innovation Highway

So where exactly is Deloitte on the Innovation Highway? Deloitte admits that in the past, the innovations at Deloitte were "*Distributed Reactive*" a condition it tactfully describes as: Innovation that happened at the edge, was chronically under-invested and usually following another’s lead. Whereas today, Deloitte Innovation is "*Programmed Proactive*" - where Deloitte is proactively focused on connecting the edge to the core (e.g. Innovation Quest), by challenging some norms, and realizing that it is not just a means to an end. However, Deloitte wants Creativity and Innovation to be "*Culturally Ingrained*" tomorrow - innovation as part of Deloitte's core DNA (processes, people, and technology), innovation as efficient and effective, and as an externally recognized differentiator. A big portion of this is removing obstacles, and finding a way to say “yes", by failing fast and forward, however learning from the experience.

I asked Rick one key question: "**What innovations drive new business at Deloitte?**" Rick Rayson: "Innovation at Deloitte occurs every day with the hundreds of client service teams and thousands of professionals who create solutions for our clients. The key is to assimilate these innovations occurring at the "edge" to the entire organization to drive new services to our clients on a broad basis."

Strategic Innovations at Deloitte - From the "Edge" to the "Core" back to the "Edge" Fast - You get the picture!

About Rick Rayson

Managing Partner Rick Rayson (Deloitte & Touch LLP) is the leader of Orange County Practice, overseeing the Deloitte U.S. Firms' subsidiaries providing audit, tax, consulting, and financial advisory services. Rick has been with Deloitte for more than 27 years. Rick is advisory partner on many of the practice's major clients, and is actively involved in the Orange County business community. He is a member of the University of California, Irvine Chief Executive Roundtable, and is on the Dean's Advisory Board for UCI's Paul Merage School of Business.

Acknowledgements:

Rick Rayson’s Presentation at Dean’s Leadership Circle event at UC Irvine in February, 2008

Chapter 28

Toyota's Innovation Factory

How does an organization implement one million new creative ideas each year? And become a perennial top ten profitable companies of the world. And achieve market leadership while relentlessly pursuing perfection and delivering some of the best new innovations the world has ever seen.

Welcome to Toyota's Innovation Factory. The world knows Toyota as the car maker that produces such great brands as Camry, Lexus, Prius, Scion, Rav4 and more. For example, the introduction of the Hybrid car back in 1997 when other car makers had not even put together a design for a hybrid car, much less a concept car.

Matthew E. May, a senior University of Toyota advisor, and the author of "The Elegant Solution: Toyota's Formula for Mastering Innovation" puts forth a passionate perspective on how Toyota creates new innovations at the breakneck speed of over 2,500 new ideas implemented every day. How is this possible? Innovation at Toyota has to do with the history, foundation, guiding principles and practice.

Foundation of Elegance and Innovation

Toyota was founded by Sakichi Toyoda as a handloom company. In 1898, Toyoda created Japan's first steam-powered loom. Toyota Motors began as Toyota Automatic Loom Works, a company whose looms were of the "highest quality, lowest cost, and easiest to use." Sound familiar. Hence the term "Elegant Solution" which according to May is about "finding the aha solution to a problem with the greatest parsimony of effort and expense." And May argues that at Toyota, you get elegance from creativity, simplicity, intelligence, subtlety, economy, and quality. Further, May lays the groundwork for the term Innovation, which according to David Neeleman, founder and CEO of JetBlue means: "Innovation is trying to figure out a way to do something better than it's ever been done before." Indeed. This has become one of the guiding principles at Toyota.

Guiding Principles for Driving Innovation

Three guiding principles drive Innovation and create elegant solutions at Toyota, which were originated and finessed by Toyoda:

1. The Art of Ingenuity

May asserts that in order to succeed in an ever complex business world with competing pressures to innovate amidst competitive pressures and yet manage risks and uncertainty, an individual has to be both an artist and a scientist. Ingenuity creates images of cleverness, resourcefulness, initiative, originality, inventiveness, creativity, skill and even cunning – resulting in innovation. Sound contradictory. The key is to continually ask the question: “Is there a better way?”

This is possible if the individual fully leverages their domain knowledge and expertise, continuously pursues every possible way to innovate and perfect, challenges opposition tactfully, does not accept the status quo, and uses organizational efficiencies to drive new ideas and methods. Toyota has made ingenious vehicles such as Camry, RAV4, 4-Runner, RX which have become perpetual favorites in the market place.

2. The (relentless) Pursuit of Perfection

May argues that for a business to succeed at innovation, it has to rigorously search for an optimal solution – one that yields low-cost, low-risk, high-impact breakthrough. Innovation happens at Toyota through systematic pursuit of perfection at every level, every department, in everything Toyota does. Perfection equates to excellence, precision, flawlessness at Toyota. And it is this chase for perfection that creates better processes, products and services for tomorrow, today. It takes many small steps (Collins - Built to Last) to create sustainable innovation. For example, the Lexus cars made by Toyota epitomize perfection in the form of car design, function, performance, service and total satisfaction.

3. The Rhythm of Fit

May propounds that great innovation has to fit – fit the innovator, the times and the larger system. How can a great innovation shape and then change the attitudes and behaviors of people, the way they think, they work, they live? A change that fits in the current time and environment. For example, the Toyota Prius car. A hybrid car that provides plenty of room in the inside, shows solid performance on the highway, provides all the safety features, and gives great gas mileage and range. Toyota envisioned the changing environment of higher gas costs and pollution that wanted a car which is economical to drive, is environmentally friendly (green innovation), and does not sacrifice the inherent need for roominess, safety and performance.

The three principles create both the policy and framework at Toyota for driving innovation and creating elegant solutions. How would you find and drive innovation at your organization? Here are six ways to find innovation. If you are a technology company, read about how Intuit creates innovations and achieves market leadership using similar principles. May asserts that these three principles are non-negotiable and must be adhered to by everyone at Toyota.

Blocking Innovation

May also talks about the obstacles that hinder sustainable business innovation which Toyota has tactfully avoided through out its history. He calls these innovation blockers “temptations”, which are about taking short cuts, trying to hit a home run every time, creating products too complex that are top loaded with extra dressing, and without a real understanding of the innate customer need.

Here are the three Innovation blockers (does your organization block creativity and innovation? Here are some tips to unblock creativity and innovation) that Toyota has avoided over the years:

1. Swinging For Fences

High risk. High reward. NOT. When a company only focuses on trying to go all out for home runs every time at bat, you will strike out more often than not. The key is to build a sustainable batting average -- lasting innovation, and not just go out swinging every time at bat.

2. Getting Too Clever

Every product manager at one time or the other is guilty of adding all those extra "bells and whistles" that the customer does not care about. This happens when you bow in to competitive pressures, or needs of specific customers that are not indicative of the mass market. The company ends up creating products that customers actually run away from.

3. Solving Problems Frivolously

May calls this the "brainstorm" trap, which is creating something that is out of line with the company’s core values, not serving customer’s true needs, and worse yet, something that is created hastily without rigor and analysis.

Ten Practices for Making Innovation

May showcases the following Ten Practices that Toyota has adopted on its core principles towards making Innovation happen:

1. Let Learning Lead
“Learning and innovation go hand in hand, but learning comes first.” Education and Learning can drive substantial innovation.

2. Learn to See
“Elegant solutions often come from customers -- get out more and live in their world.”

The key is to unearth the latent needs of the customers, and perceive the emerging needs.

3. Design for Today
"Focus on clear and present needs, or your great ideas remain just that." Innovation that drives business in today's market is likely to get funded and succeed.

4. Think in Pictures
"Make your intentions visual -- you'll surprise yourself with the image." In Six ways to find innovation, we talked about the need for visual imagery.

5. Capture the Intangible
"The most compelling solutions are often perceptual and emotional." This is where the product manager needs intuition and the ability to read their customers' minds.

6. Leverage the Limits
"Restraining forces rule -- resource constraints can spur ingenuity." It is critical to know what you can deliver, how you can deliver and by when.

7. Master the Tension
"Breakthrough thinking demands something to break through." In Failures and Stumbles driving innovation, we talked about the five takeaways stimulating innovation. Accept that mistakes will be made.

8. Run the Numbers
"Think for yourself -- temper instinct with insight, focus on facts, and do the math." A sound technical analysis is critical before you begin a new product innovation. This should take into account such factors as risks, probabilities of success, and lessons learned from past projects.

9. Make Kaizen Mandatory
"Pursuing perfection requires great discipline -- create a standard, follow it, and find a better way." A process is a must have. Think Six Sigma. Think Rigor at Intuit.

10. Keep It Lean
"Complexity kills -- scale it back, make it simple, and let it flow." Innovation happens when you can simplify the intended application and make it so easy-to-use that it becomes a no-brainer.

Bottomline:

Toyota has become the dominant car maker today based on large part due to the Innovation Factory. A Factory based on a foundation of creating elegant solutions through three guiding principles, avoiding three "temptations" and driving ten production practices.

"Toyota is becoming a double threat: the world's finest manufacturer and a truly great innovator . . . that formula, a combination of production prowess and technical innovation, is an unbeatable recipe for success."

* Fortune, February 2006

Acknowledgements:

Matthew E. May: “The Elegant Solution: Toyota's Formula for Mastering Innovation”. Free Press. 2006.

Chapter 29

iPod - Apple's Best Innovation

Apple Inc. (NASDAQ: AAPL) is the World's Number One Innovative Company, three years in a row according to BusinessWeek's 2007 list of the world's 50 most innovative companies. BusinessWeek proclaims "their creativity goes beyond products to rewiring themselves." BusinessWeek ranks the innovative companies based on the responses received from over 1,000 global executives of the largest global corporations; survey questions include innovation metrics on process, product and business model innovations.

Apple is one of the Top 20 Innovators of The Innovation Index.

According to BusinessWeek, innovation today is “much more than new products.” Innovation is also “reinventing business processes and building entirely new markets that meet untapped customer needs.” The ubiquity of the Internet and globalization of the business expand generation of new ideas. Innovation is then “selecting and executing the right ideas and bringing them to market in record time.”

iPod driving Apple to Number One Innovative Company

iPod, powered by Apple, introduced in 2001 and masterminded by Steve Jobs, combines outstanding design, easy-to-use interface, superb performance, and an experience like no other. Apple assumed the world’s number one innovative company position and held it again in 2006 in large part due to the exponential growth of iPod – aptly called the iPod phenomenon. Just ask the tens of millions of fans walking, driving, jogging, exercising, chatting, playing, humming, relaxing, singing, rocking, screaming, and above all enjoying their daily iPod experience. Imagine if they were to miss their iPod for a day, or even for a few hours. iPod is oxygen – pure and simple – the source of life for these millions of fans. Not to mention iPod has become associated with personal status and symbol that speaks of cool, hip, polished, and different. What began as a new product quickly became a revolution. iPod is by far the best commercial innovation the world has seen in the last few years, and perhaps is the best innovation from Apple dating back through its storied history of innovation firsts. Apple one-upped the iPod design innovation by creating new innovations in business model with the launch of iTunes online service enabled by strategic partnerships with the Music, TV and Movie industry.

A Glorious History of Innovations

Apple has created great innovations beginning with the first Apple computer in 1976,

Graphical User Interface (GUI) along with the popular Macintosh introduced in 1984, the reliable PowerBook introduced in 1991, the PDA named Newton that created a new industry of handhelds in 1993, the new millennium revolution beginning with the iMac in 1998, the new iBook hot on the heels of the iMac in 1999, the iPod that put an oomph in the MP3 players and essentially changed music as we know it in 2001, iTunes software and Music store service that changed the Music industry business model and made it easy for fans to listen and buy music piecemealed in 2003, iPod mini, iPod (U2 Special Edition) and iPod photo in 2004, iPod shuffle, iPod nano, iPod with Video and Mac Mini in 2005, the new iMac with Intel core Duo processors and the new MacBook with Intel processors in 2006.

Five years of iPod Innovations

2006 marks five years of iPod innovations. Apple's Hardware engineering chief Jon Rubinstein assembled a team of engineers to design and build the first iPod in less than a year, and it was unveiled by CEO Steve Jobs on October 23, 2001 as a Mac-compatible product with a 5GB hard drive that put "1,000 songs in your pocket." Since then, Apple has introduced fourteen different models of iPods in various colors, displaying photos, downloading and playing videos, branded and signed by U2, with numerous forms and shapes, different capacities for holding songs, pictures and videos, with connectors, next generation models with better wheels, and more. For instance, the new iPod video introduced in 2005 was the first iPod that could download and playback full-motion video with a larger color screen and better display resolution – an innovative package under $300 for the base model. Or the innovation in the wheel that is akin to the driving wheel on a car – from an original mechanical scroll wheel to the current touch-sensitive click wheel. According to PC Magazine, "In the years since (2001), the iPod's market share has grown tremendously, iPods have shrunk in size, Apple's iTunes Music Store has taken the lion's share of legal digital music downloads, and the iPod accessory market has exploded and taken on a life of its own. *All this has made the iPod as synonymous with "MP3 player" as Kleenex is with facial tissues*."

The love for iPod

Why do people love iPod perhaps more than their spouse, boyfriend, girlfriend or children? It has to do with the simple yet elegant design that makes it extremely easy-to-use (Toyota's Innovation Factory), exceptional sound, video and imagery, and the amazing experience. The flexibility provided by the iTunes software and service that allows you to try and download any music and video with the click of a button from any computer or the Internet to your iPod. And all the available accessories from wireless headsets, remote controls, beautiful skins, acoustic speakers, to connectors that can literally take your iPod music and videos anywhere – inside the room, in the car, in the office, on the plane, even while taking shower. iPod fans can't live without their iPods literally. And the search is still on for a music fan that has switched from an iPod to another MP3 player. And there is that small sharing thing: hard-core iPod fans don't like to share their iPods with others. **BYOiPod.** Bring your own iPod.

iPod's Topline

In the quarter ending September 2006, Apple sold 8.7 million new iPods, generating $1.5 Billion in sales, a third of Apple's total quarterly sales. By the end of 2006, there will be over 67 million iPods in the world; Apple is poised to eclipse the 100 million iPods mark in 2007. iPod has revived Apple from the depths in 2001 when annual sales had plummeted to $5.36 Billion and Apple was losing money. Apple's shares were under $10. Compare this to 2005, when Apple had sales of $13.9 Billion, and profits of over $1 Billion. Apple's shares have climbed sixteen folds. The Apple machine is kicking into high gear, in large part due to iPod Innovation Revolution. iPod's halo effect is even evident in the latest quarter when Apple sold more Macs than it has ever sold before: 1.61 million.

In 2007, Apple sold 52.7 million iPods, an increase of over 15% from the 45 million iPods sold in 2006. In the latest quarter ending December 2007, Apple sold 22.1 million iPods representing five percent unit growth and 17 percent revenue growth over the year-ago quarter. Can Apple grow iPods sales to over 20% in 2008? What strategy would Apple employ to lure more iPods buyers in 2008?

The next generation iPods

What innovations can be expected from iPod? Can Apple create jazzier, easier, feature-rich iPods?

How about iPods that beam songs and videos to each other, to a computer or even to a TV? Or iPods that deliver Presentations and Live Videos in team meetings. iPods with GPS Navigation system. iPods that combine as cell phones. iPods that can receive satellite radios. What innovations will Apple bring out next? Steve Jobs indicated in the latest quarterly earnings press release that 2007 will be an exciting year full of great new products. The world will be watching.

2008 Fast Forward

Apple Inc. added new models of iPod(R) touch after the success of iPod touch launched in 2007. The new models have "double the memory, doubling the amount of music, photos and videos that customers can carry with them wherever they go."

iPod touch now comes in a 32GB model for $499, joining the 16GB model for $399 and the 8GB model for $299. iPod touch features Apple's revolutionary Multi-Touch(TM) user interface and pioneering software that allows users to find and enjoy all their music, videos, photos and more with just a touch of their finger. iPod touch models include the ability to automatically find your location using the new Maps application*; create Web Clips for your favorite websites; customize your home screen and watch movies from the new iTunes(R) Movie Rentals. iPod touch features the world's most advanced mobile web browser in the world with Safari(TM) and great mobile applications including Mail, Maps, Stocks, Weather and Notes.

Apple had an outstanding 2007 - the stock price and market cap more than doubled and finished upwards of 130% owing to such game changing innovations including the new iPhone, the new **iPod Touch**, and the all new Mac OS – Leopard, and on the strengths of the growing iPod and Mac business.

Retail research firm NPD Group says Apple's iPods still maintain a lock on the top spot in U.S. sales of digital music and media players, with as much as 75% of the market.

Nike + iPod

One innovation that Apple created with another Top 20 Innovator of The Innovation Index, NIKE, Inc. (NYSE: NKE) is Nike Plus. Apple calls it the "ultimate synthesis of sport and music: a pair of Nike+ shoes, an iPod nano, and the Nike + iPod Sport Kit."

Nike+ shoes feature a built-in pocket under the insole specially engineered for the Nike

+ iPod sensor. iPod nano syncs a runner's complete workout data with both iTunes and nikeplus.com. The Nike + iPod Sport Kit allows an athlete's Nike+ shoe to talk to the iPod nano. The sensor uses a sensitive accelerometer to measure the activity, then wirelessly transfers this data to the receiver on your iPod nano.

Nike + iPod receiver fits securely into the Dock connector on the bottom of the iPod nano. Wirelessly connected to the sensor in your Nike+ shoe, it receives up-to-the-second information as you run.

As one runs, iPod nano tells you your time, distance, pace, and calories burned via voice feedback that adjusts music volume as it plays. In addition to progress reports, voice feedback congratulates you when you've reached a personal best — your fastest pace, longest distance and time, or most calories burned. Besides the voice feedback, iPod nano plays the workout songs you choose, or have the iPod nano choose it for you based on your workout. You can also choose to play **PowerSong**.

Nike+ has created a growing new business for Nike, and Nike even touts this in their earnings reports and press. Is Apple planning to make more deals with more athletic companies besides Nike for the iPod? We will find out in 2008.

Apple iPod - Apple's Best Innovation.

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Chapter 30

Apple iPhone Rising - Top Ten Innovations

Top Ten iPhone Innovations introduced by Apple's Creativity

Apple iPhone launched on June 29, 2007.

Here are the ***Top Ten innovations introduced in iPhone by Apple***:

1. Make calls by "**simply pointing at a name or number**." Get out of here... no buttons to click. No clicking umpteen times before you find the number you want to call. Point and Call. Welcome to the new touchscreen interface of iPhone. If you love the iPod interface, iPhone will only make it better.

2. **Visual Voicemail**, is definitely an industry first, a new innovation, that "lets users look at a listing of their voicemails, decide which messages to listen to, then go directly to those messages without listening to the prior messages." How useful is this? How often and how long you have to wait to hear that all important message from your very important friend, or boss until all the messages before are heard? If you are a frequent cell phone user, the answer is all the time. Apple understands the users' frustration as they check their voice mails, and Visual Voicemail will change the way you listen to your voice messages, and even save you minutes spent in waiting to hear that all important message. Oh, and you can even ignore earlier messages from that certain friend.

3. **SMS move over**. No more clicking 3 or 4 or more times to get to that letter that you want to type now. How about a touch keyboard that is predictive, full QWERT, and even prevents mistakes. Oh my. Finally, SMS will become easier, simpler, faster, friendlier, and bigger!! If you love SMS, iPhone is it. Recent reviewers have indicated that SMS on the iPhone needs a bit of getting used to; but once you do, you won't go back to the old ways.

4. A handy 2 megapixel camera, with that all important **Photo management software**. Finally. Now you can organize the photos you take and use them for wallpapers, emails, upload and download them to your PC or MAC, and watch them on a 3.5-inch widescreen.

5. **A widescreen iPod**. How wide? 3.5-inch wide. You love iPod. You would love iPhone even more. It takes iPod to the next level. Literally. iPhone promises that you will now "touch" your music, videos, photos, songs, artists, albums, playlists - all at the click of a finger. And now you can enjoy all those TV shows in cool landscape mode. Add YouTube to the video mix, and now we are talking!!

6. **Cover Flow** in iPhone introduces a new way to "browse music library by album cover artwork, for the first time." When navigating your music library on iPhone, you are automatically switched into Cover Flow by simply rotating iPhone into its landscape position. Now, you can enjoy the album in the same way as you buy it from the music store.

7. iPhone brings your **Rich Email** with the graphics, photos and visuals along with text from your friends, family or work to the phone. The emails are downloaded in the background while you work, browse, message or call, and will work on most POP3 and IMAP services. And to top it off, Yahoo! Mail is integrated and readily available for the iPhone.

8. **Web Browsing** as good as computer. This could be a stretch. Although iPhone comes with the Safari (TM) web browser which provides all the features of web browsing for the computer on the iPhone. Could this be the last straw that finally breaks the camel's back, and brings the hordes of wireless phone users to web browsing? Not only you can see a web page as it was designed to be seen, iPhone allows you to "easily zoom in to expand any section by simply tapping on iPhone's multi- touch display with their finger." And with the Quad-Band GSM technology along with EDGE and Wi-Fi means "you can surf the web from just about anywhere," and even "automatically sync bookmarks from their PC or Mac."

9. **Google Maps**. On iPhone. No way. Yes way. Google's groundbreaking maps service and iPhone's amazing maps application tied together "offering the best maps experience by far on any pocket device." Easily and conveniently view maps, satellite images, traffic information and even get directions. Finally, you have everything local and global covered.

10. **Artificial Intelligence**. iPhone that thinks and senses and becomes one with what you do. iPhone has "advanced built-in sensors -- an accelerometer, a proximity sensor and an ambient light sensor" that "detects when the user has rotated the device from portrait to landscape, then automatically changes the contents of the display accordingly, with users immediately seeing the entire width of a web page, or a photo in its proper landscape aspect ratio." Are you kidding me? No wait. There's more. iPhone also has "proximity sensor detects when you lift iPhone to your ear and immediately turns off the display to save power and prevent inadvertent touches until iPhone is moved away." Wait a moment. Finally, "iPhone's built-in ambient light sensor automatically adjusts the

display's brightness to the appropriate level for the current ambient light, thereby enhancing the user experience and saving power at the same time."

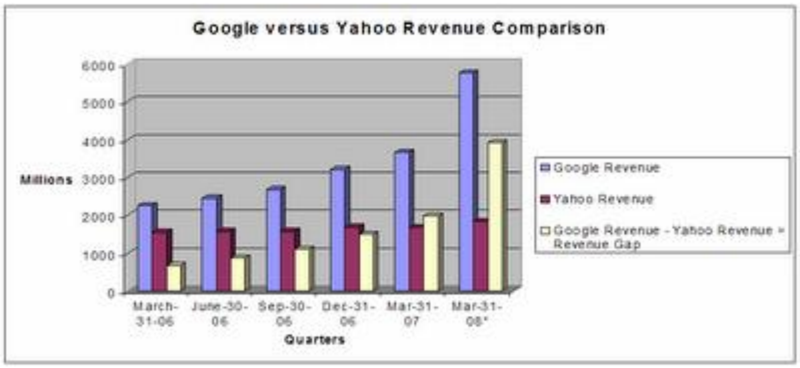
Apple Inc. (NASDAQ: AAPL) is one of the top 20 innovators of The Innovation Index, and is the Number One Innovator for 2007 as per the rankings of the Top 50 Innovative Companies in the world by BusinessWeek.

Acknowledgements:
Apple.com
http://www.apple.com

Chapter 31

Google versus Yahoo - A tale of two cities

Google Inc. (NASDAQ: GOOG) and Yahoo Inc. (NASDAQ: YHOO) are two of the 20 innovators of The Innovation Index.



"Google's sites had 528 million visitors worldwide in March 2007, a 13 percent gain from the same month a year ago, according to ComScore Inc.. Microsoft had 527 million, while Yahoo had 476.3 million, the researcher said.

The popularity of searching the Web and new sites such as YouTube helped Google grow faster than both its biggest rivals. Products such as the Gmail e-mail service, an online calendar and an online payments system are drawing users even though they aren't nearly as popular as Google's search engine."

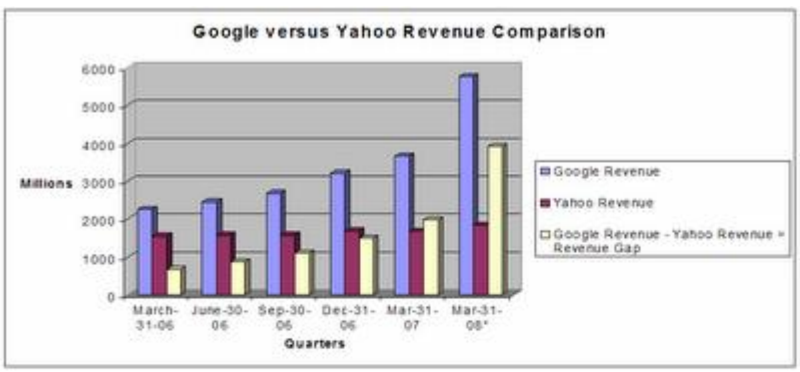
Google already is the most-popular Internet search engine, drawing 48 percent of U.S. queries in March 2007, according to ComScore. Sunnyvale, California-based Yahoo was the most-visited U.S. Web site in February and also had the most repeat visits of any Web site.

In March 2007 I wrote a report on Can Yahoo Catch Google? after Yahoo had recently launched Project Panama, Yahoo's answer to Google AdWords and the making of a better search mechanism.

In the last two weeks both Yahoo and Google announced their earnings for the latest quarter. Project Panama had not yet impacted Yahoo's topline revenue; however, Yahoo officials are hopeful that Panama will have some impact in 2007. The question from the investors and analysts looms is how much impact Project Panama will have when the dust settles.

When one examines the growing gap between Yahoo and Google in terms of quarterly revenue, quarter over quarter revenue growth, quarterly net income, quarterly net profit margin, yearly innovations and stock performance gains, the picture becomes increasingly clear. Google is unstoppable at this juncture! And as of recent quarter's earnings announcement, Google has achieved another historical milestone vis-a-vis Yahoo, a first in its storied existence -- The Quarterly Revenue Gap between Google and Yahoo doubled -- Or to put in simpler terms: Google's quarterly revenues are now more than double Yahoo's quarterly revenue. 2007 will mark the first year when Google's revenue and profits will more than double Yahoo's. It's not just revenues. Google has widened the gap in Quarter over Quarter Revenue Growth, Net Income, Net Profit Margin and Stock Performance. Only the volume of Innovations or Gross Innovations is an area where Google and Yahoo seem to have some parity. Which brings me to the central point: Are sheer number of Innovations (total innovations) a leading indicator on how well a company is growing, or poised to grow? Alternatively, one has to really examine under the hood and look at not only the actual number and type of new products introduced, new collaborations and acquisitions, but also current market leadership and execution to understand how well the company is growing.

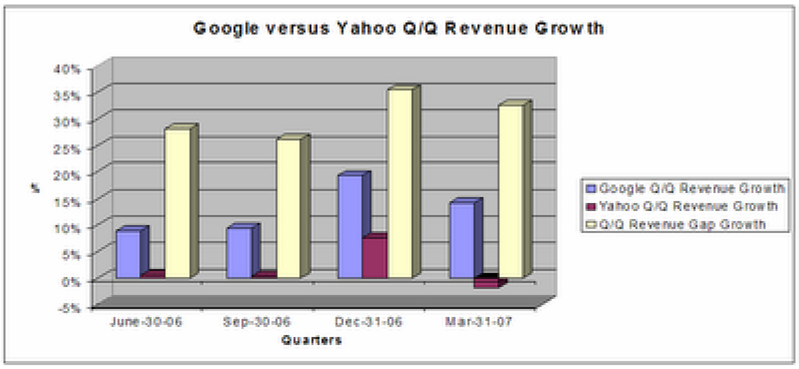
Google versus Yahoo Total Revenue Comparison



In the latest quarter ending March 31, 2007, Google had revenue of $3.66 billion; Yahoo had revenue of $1.67 billion. The Revenue Gap (Google's revenue minus Yahoo's revenue) between Google's and Yahoo's revenue: a whopping $1.99 billion. The Revenue Gap between Google's revenue and Yahoo's revenue is now more than all of Yahoo's revenue. This is significant! Compare this to the quarter ending March 31, 2006, or a year ago, where Google's revenue was $2.25 billion to Yahoo's revenue of $1.57 billion, or a Revenue Gap of $687 million. Importantly, the Revenue Gap a year ago was only 40% of Yahoo's revenue. Google is widening its lead by leaps and bounds over Yahoo, and at current average growth rates for both companies, Google revenue will be at least three times Yahoo revenue for March quarter in 2008. Sobering indeed.

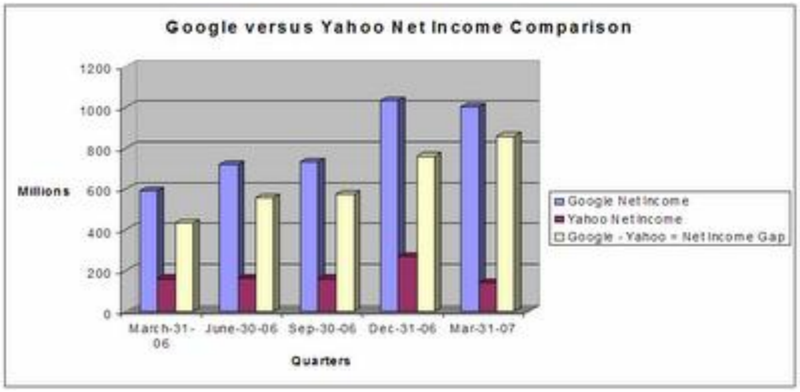
Google is growing strong not just within the U.S. but also internationally. Google Revenues from outside of the United States totaled $1.71 billion, representing 47% of total revenues in the first quarter of 2007. Finally, Google's partner sites generated revenues, through AdSense programs, of $1.35 billion, or 37% of total revenues, in the first quarter of 2007. This represents a 45% increase over network revenues of $928 million generated in the first quarter of 2006 and a 12% increase over fourth quarter 2006 revenues of $1.20 billion.

Google versus Yahoo Quarter over Quarter (Q/Q) Revenue Growth Comparison



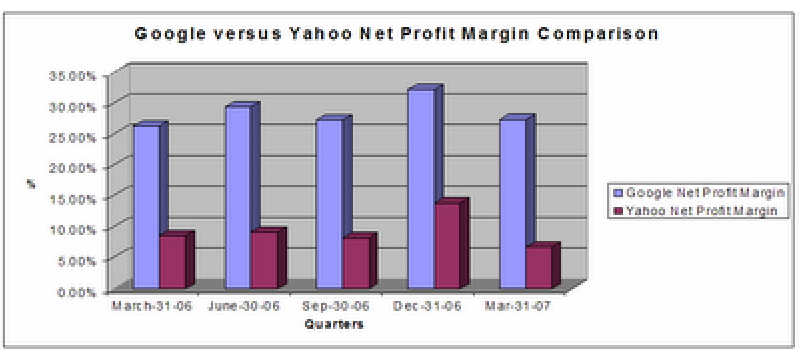
The actual reason behind Google's insurmountable revenue position over Yahoo is owing to the quarterly revenue growth rate of Google. Google has averaged a quarter over quarter revenue growth of 12.99% over the last four quarters. This means, every quarter, Google's revenue grows over 12% from the previous quarter's revenue on an average. For instance, Google added $458 million in new revenue in the latest quarter from previous quarter's revenue. On the other hand, Yahoo has averaged a quarter over quarter revenue growth of only 1.7% over the last four quarters. Yahoo is growing, but growing quite slowly. Google is growing, growing quite rapidly. Hence the larger Revenue Gap. What is even greater is the Quarter over Quarter Revenue Gap growth between Google and Yahoo. Every quarter, the Revenue Gap between Google and Yahoo is growing 30% or higher. First, the current Revenue Gap is greater than Yahoo's total revenue; now, the Revenue Gap is growing 30% plus each quarter; this means every three quarters, the Revenue Gap will double.

Google versus Yahoo Net Income Comparison



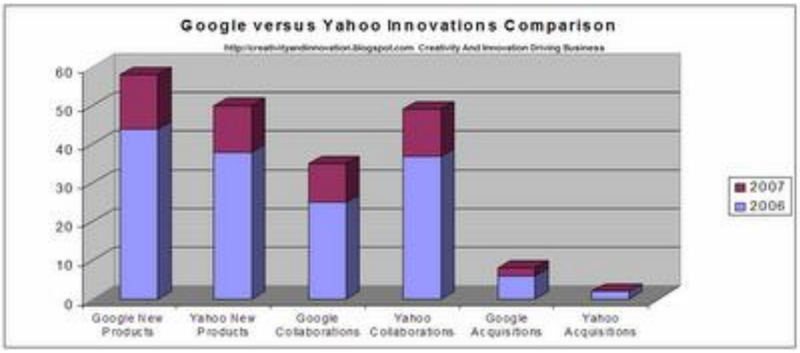
To many financial analysts and investors, total revenue or total sales alone are not a key metric. They look at net income, net profit margin, and earnings per share. Google has increased the lead over Yahoo in net income as well - the **net income of Google is seven times that of Yahoo**. Just a year ago, Google's net income was $592 million versus Yahoo's net income of $160 million, a difference of $432 million or less than four times. In the latest quarter, Google's net income is an astonishing $1.002 billion versus Yahoo's net income of $142 million, a difference of $860 million, more than seven times. Google was making more money than Yahoo a year ago; now, it is double that amount. Importantly, Google is adding a billion dollars in savings each quarter, which allows Google to create huge acquisitions such as YouTube in 2006 ($1.65 billion - although this included cash and stock) and DoubleClick in 2007 ($3.1 billion - all cash). Yahoo on the other hand has to be content with smaller or no acquisitions, and cannot invest heavily into new innovations. Yahoo just announced acquisition of Right Media, an online advertising auction site, for $688 million (cash and stock).

Google versus Yahoo Net Profit Margin Comparison



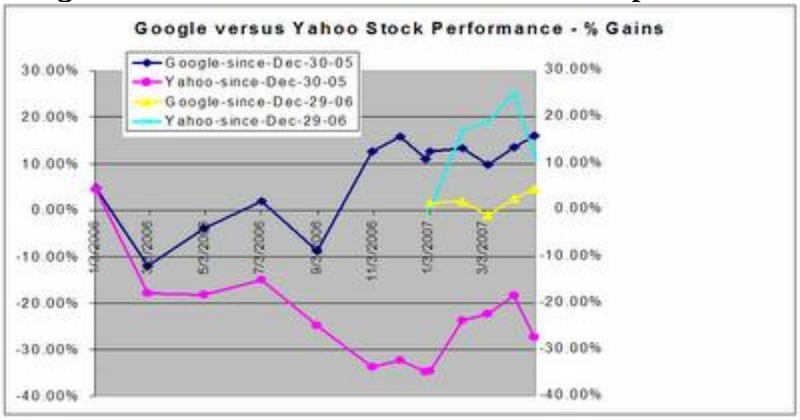
Another barometer of a company doing extremely well and putting more money in the bank is net profit margin, i.e. net income after paying income taxes as a percentage of total revenue. Google has averaged net profit margins of over 28% in the last five quarters; compare this to Yahoo's average net profit margin of just over 9%. Google's net profit margin is more than three times Yahoo's net profit margin. Yahoo has to work three times harder than Google to make the same amount of profits. Or Google has to work three times less than Yahoo. This means Google is running a highly efficient, operationally sound, profitable machine; Yahoo is doing good, but not as well as Google. Either Yahoo has to become more efficient (bottomline), or create a whole lot more revenue (topline) to really catch Google.

Google versus Yahoo Innovations Comparison



About the only area where Google and Yahoo are somewhat equal are total innovations. In 2006, Google had a total of 75 innovations including 44 new products, 25 collaborations, and 6 acquisitions. Yahoo meanwhile had 77 innovations in 2006, including 38 new products, 37 collaborations, and 2 acquisitions. In 2007, Google has kept up the pace with 26 new innovations through April 27, 2007, including 14 new products, 10 collaborations, and 2 acquisitions; Yahoo on the other hand has 24 new innovations, made up of 12 new products, 12 collaborations and 0 acquisitions. On surface, both Google and Yahoo seem to have the same pace of innovations. Why then Google is doing so much better in all the metrics above? *Three reasons: 1. Quality of innovations 2. Meaningful acquisitions 3. Execution on current strategy.* For instance this year, Google was able to acquire DoubleClick in an all cash deal for a huge amount of money; for Yahoo, this would have been difficult to swallow. Google's AdWords and AdSense are head and shoulders above Yahoo's Text Search solutions - Panama has narrowed the gap somewhat, however, Google continues to introduce new elements such as the recently announced WebSite Optimizer. Yahoo is quite fond of collaborations as a way to create a larger ecosystem and grow the business, and consistently leads Google in new collaborations. However, as with all partnerships, so much is not under your control, and there is a high dependence on how well your partner will do for you. Google has done well with the AdSense partnership program, and has built a mass of content partners all around the world - Google's partner growth is viral now. Yahoo has taken an early lead on the mobile platform though, and is betting that mobile is where the games will be played in the future.

Google versus Yahoo Stock Performance Comparison



Google stock has appreciated 16% since December 30, 2005; Yahoo stock is down 27% since December 30, 2005. However, Google stock has only gained over 4% this year (since December 29, 2006); on the other hand, Yahoo has gained over 11% this year. At one stage, Yahoo stock had gained over 25% in 2007; however, the latest quarterly results from Yahoo were received less favorably by the investors, and resulted in the drop. Google also had an early rally in the year, and was in the negative territory for a couple of weeks. Google's latest quarterly results eased the investor concerns about Google's torrid growth, and Google shares have gained ground since. Google stock has not appreciated in the same realm as the revenue growth. For a company whose revenue and net income has grown 63% and 69% respectively in one year, the stock performance gain has been only 16%. This has a lot to do with built-in expectation, and Google's already lofty valuation. Yahoo's revenue has only grown 7% in one year; and net income has dropped. Investors have rewarded Yahoo accordingly.

Bottomline

Google is firing on all cylinders, and has the making of a juggernaut. It appears that Google can only fall if Google makes huge missteps and places big bets on the wrong horse. Google has placed sizable bets with YouTube acquisition in 2006, and DoubleClick in 2007. YouTube acquisition led to some bad press owing to copyrights and a lawsuit by Viacom. Ultimately, Google will prevail, and YouTube in the meantime has seen nothing but huge growth in viewers each month. However, it has not come without some costs. DoubleClick will not have the same issues as YouTube; although it was valued astronomically high, hence the margin for error is small. In as much as Google can create timely innovations and execute well, it is poised to expand the market leadership further, and grow the revenue higher and faster. Yahoo has much catching up to do - both on topline and bottomline innovations; if Yahoo does not catch Google in the stride in 2007, it is possible that Yahoo could be relinquished even further in 2008. A time could come in 2008 and beyond wherein Google could outright grab Yahoo's market and begin winning away Yahoo's loyal base. The Disruptive Innovation Gap was created by Google, and now Google is running forward. How does Yahoo stop Google from doing this? It is a daunting task, and will take all of Yahoo's Panama, Mobile and Content, and then some. Fundamentally though, Yahoo has to recreate that buzz and energy that used to be Yahoo, and get users to go to Yahoo in hordes as they used to go - before Google came knocking.

Acknowledgements:

Yahoo Press Releases and Earnings Announcements
Google Press Releases and Earnings Announcements

Chapter 32

YouTube - $1.65 Billion Innovation and Counting

When was the last time a company innovated from zero to $1.65 Billion in market value in less than two years from founding, and in less than one year from launch of their key product?

Beginnings of a new Broadcast company

YouTube, a consumer media company for people to watch and share original videos worldwide, serves over 70 million videos daily on their website - videos that are created and shared by everyday people. YouTube also draws 34 million unique visitors a month, ranking it in the top 15 sites by traffic volume. YouTube's mission is to convert everyday people into broadcasters of tomorrow. Is YouTube the beginning of a new broadcast company? A company that fundamentally changed the rules where people choose what they want to watch, when they want to watch, and for how much (and free in most cases) without the overload of advertisements.

Who came first?

Is YouTube a modern-day community of all the people who were using **Microsoft's NetMeeting** for sharing live video many years ago? There was a huge wave of people who initially embraced the live capability of sharing video in NetMeeting in the late nineties using a simple Webcam and simultaneously conducting conferencing using integrated live chat and audio. A market of live conferencing and video sharing softwares got created overnight based on this initial success. Some of the applications of live video even created a whole new adult industry. However, not a single vendor experienced any type of consumer mass market success. And then **TIVO** emerged from the Internet boom (or bust), wherein you can buy a simple hardware device (technically a large hard-drive that saved analog TV broadcast into digitial media) and pause, rewind and store live broadcast TV, and watch it on demand anytime. TIVO was innovative and revolutionary, and single-handedly created a huge market following for On demand TV. TIVO even became a verb wherein thousands of TV fans would talk about "Just Tivo it." However, TIVO was a personal device that did not let you share the videos with friends and families. Nor TIVO allowed you to capture your own video and store it (at least not easily) and then send it someone else.

New Innovations

Until **Steve Jobs** and **Apple** started the **iPod** and then **iTunes** revolution, which morphed into video downloads of hit TV shows onto iPods or desktops to allow people to view the shows on demand. However, even the brilliantly innovative Jobs missed what was to become a people Video revolution. Whereas Jobs was focused on creating partnerships with TV broadcast companies to monetize the market of recorded broadcast videos and grow the business at Apple, YouTube founders **Chad Hurley, Steve Chen,** and **Jawed Karim** were focused on the exact opposite - free video service created by the people for the people. They were trying to create the world's best platform and Video network wherein people can upload, tag and share videos for free. The founders almost went broke trying this innovative experiment out after the launch when the number of people uploading videos to share, and the number of people downloading videos to watch grew exponentially. However, the growth of Internet as a network and the fall in price of broadband, bandwidth and storage kept their vision going (and a few million dollar capital investment eventually by Sequoia capital). The YouTube Innovation Revolution was just beginning.

Zero to 70 million Videos served daily

YouTube, founded in February 2005, created many timely innovations that made it successful in such a short time paving its way to an acquisition by Google for $1.65 Billion dollars.

First, the vision of Founders to create a Video download service for FREE (and not getting caught up in monetizing the Video Service from the get go) at the right time when the broad consumer market was evolving into creating and sharing home videos at personal websites or community sites from just sharing pictures and images. Sound familiar? Think Google (that created the Search engine for free and did not monetize it for the longest time).

Second, the intense focus on providing the best and most comprehensive experience for users interested in uploading, watching and sharing videos. This is no easy feat. YouTube made it as easy as 1,2,3 to upload and share a video. And to create a vibrant community, it added such key features as categories, video ratings, most requested videos, most watched videos, and more. This made it extremely easy even for a novice to simply go to YouTube site and browse a video that they want to watch at the click of a mouse. And the ease of uploading and sharing videos meant that there was always fresh content that people want to watch daily. People can also create their own accounts and create their own list of favorite videos, categories, etc. Of course to make all these possible, YouTube created an innovative seamless Video platform that can deliver hundreds of millions of Video to people all over the world.

Finally, YouTube created key partnerships with various Music and Broadcast players in the industry (who soon realized that YouTube was upto something big). This included CBS, Sony, Universal, Warner, NBC and more. This gave YouTube and its people ability to watch snippets of TV shows, news, movies, sports and entertainment shows - short-form video programming or short clips. This became a win-win for both YouTube and its partners. YouTube wins because it brings in fresh content from hundreds of broadcast channels that people around the world want to watch online at their convenience for free, and the credibility from playing with the big boys. Partners win because they use YouTube to market their broadcast programming to the people in the hopes of creating more business on their TV broadcasts.

These timely innovations in business model, technology and user experience, and partnerships made YouTube an overnight success. As Eric Schmidt, CEO of Google pointed out in the Press Release announcing the acquisition: "*Our companies share similar values; we both always put our users first and are committed to innovating to improve their experience. Together, we are natural partners to offer a compelling media entertainment service to users, content owners and advertisers*."

YouTube and Google

Google has announced that YouTube will remain an independent business retaining its distinct brand identity. What is not clear is what Google will do to its own Video service. What Google will provide though is the monetization for YouTube's Video services through its advertiser relationships and global reach. If 1% of the 70 million Videos that are served daily click on a Google served advertisement, this would result in 700,000 daily click-through or 255 million click-through in a year (without accounting for any new growth). And if you take a five year period, it would cost Google $1.29 a click in today's dollar. Or to put it another way, Google can create new revenue of $329 million a year without making any profits (assuming it sells ads at $1.29 a click). A steep price to pay for a Video click? Only time will tell as to how big the new YouTube Video Service becomes under the auspices of Google, and how Google will be able to cash in on its investment and eventually make this a $1 Billion business.

Acknowledgements:

Google Press Releases and Earnings Announcements

Chapter 33

Blockbuster versus Netflix - Winner takes all?

Netflix (NASDAQ: NFLX), the leader of online movie rental, had revenue of $997 million and 6.31 million subscribers in 2006 (year end). Netflix revenue increased 45% in 2006, adding $309 million to the 2005 total revenue of $688 million. Netflix ended 2005 with 4.18 million subscribers (year end). An average Netflix subscriber spends about $16 for monthly subscription. Netflix added 654,000 new subscribers during the December, 2006 quarter alone. Netflix business appears to be firing on all cylinders, and is poised to repeat the performance or even surpass it in 2007. It appeared for a couple of years that Netflix will take over the movie rental business altogether. Wal-Mart (NYSE: WMT) tried the online movie rental business, launched it in a huge way, and quietly closed it down, bowing the leadership position to Netflix.

The leader of movie rentals, Blockbuster Inc. (NYSE: BBI) was nowhere to be found. Until recently. Blockbuster was once thought finished. Netflix single-handedly created the online movie rental business, a new category killer that caused total disruption in the movie rental industry. Netflix business epitomizes disruptive innovation. Netflix, the disruptor, went up against the market leader, the sustainer, Blockbuster, and carved out a huge bite of the movie rental business. Blockbuster was caught napping. Blockbuster did not know how to respond to the Netflix business model of mail-order movie rental. Blockbuster tried many models of its own by luring customers to the thousands of Blockbuster stores. However, the customers enjoyed the flexibility of renting movies online at Netflix, where they could browse the catalogs in the comfort of their own homes, read reviews, choose the movies to rent, and submit the order online. The movies arrived within a few days, by which time the customer has already viewed the previously rented movies multiple times. Customers simply shipped the movies back in a pre-paid postage return envelope. No trip to Post Office necessary. All for a monthly subscription of about $20 (which is now $17.99).

Blockbuster, the established leader of movie rental business had it made with over 5,000 stores in the U.S and over $5 billion in revenue in 2001. The movie rental business was in a status quo, with hundreds of thousands of customers going to Blockbuster stores, choosing the movies (or video games) by browsing around the stores, and renting the movies one at a time. Blockbuster required a paid membership to rent movies, and the business model was pay-per-rental. Blockbuster grew by creating local stores, and the topline revenue growth was tied to the number of new store openings. The incremental business per store was flat or tapered (Blockbuster tried selling movies and games, previously rented movies, and other movie add-ons without a tangible upside). Customers essentially paid anywhere from $2 or higher to rent out the movies. Customers were used to this model, and rivals such as Hollywood Video and local movie rental stores offered similar business models. The business model of pay-per-rental had a huge drawback: Late fees. Most customers forget to deliver the movie back within one day or two days, and ended up paying extra day charges (some even argued these late fees from time to time). Late fees were a sizable percentage of Blockbuster business; hence, there were no real plans to change the business model. Other drawbacks included not finding the movie you want to rent (it's already checked out), and the high cost of rental of a new movie. The customers quietly rented from Blockbuster, frustrated by the late fees, but content to rent (there were no viable alternatives). No one could really match the presence, the size, the selection and quality of Blockbuster. And Blockbuster was getting bigger each year, to the tune of $6 billion plus in annual revenue in 2004.

Enter Netflix

Netflix attacked the pain point of Late fees head on. Netflix introduced "No Late fees". The customers loved this. No more frustration of paying a late fee if you forget to return the movie on time. You simply return the movie when you are ready to return in a postage pre-paid envelope. And the icing on the cake: unlimited Movie rentals. Albeit up to three movies at any given time. The only limit was really the time it took for movies to ship from Netflix warehouses and arrival at your home. If you are into watching lots of movies, you can essentially time your orders so that you can end up watching fifteen or more movies each month. All for a low monthly subscription fee. Netflix essentially emulated a monthly service fee business model similar to a telephone company. And Netflix made it simple to rent online. Of course, Netflix had no stores, i.e. physical stores. Netflix was completely an online movie rental business, similar to a mail order business. Netflix also reduced the pain points of knowing which movies to rent ahead of time, without making a trip to the store. For instance, if a movie was rented out, Netflix customer simply had to put that movie on the wait list. And as soon as it became available, it was automatically shipped out. Finally, the cost per movie rental became somewhat cost-effective - especially if you watch at least half a dozen or more movies each month. When Netflix entered the movie rental business, Blockbuster and others scoffed at the whole online business. However, Netflix became hugely popular, and movie rental buffs from college dorm students to teenagers, adults to families, became Netflix loyal customers. To the tune of 6.31 million subscribers as of December, 2006. Netflix created a $1 billion movie rental business from nothing. Netflix disrupted the likes of Blockbuster, whose businesses essentially stalled or were in a free fall, became unprofitable, and even closed.

The second coming of Blockbuster

Netflix served notice. And Blockbuster business came under attack. However, Blockbuster, like a tried and tested champion, held up. Blockbuster tried many business models, eliminated late fees, introduced two for one rental, provided incentives to renters, and even introduced unlimited on-premise rentals. However, the business was spiraling down, and customers kept leaving the stores. Blockbuster even had to close stores, and put plans on opening new stores on hold. However, it did not succumb. Eventually, Blockbuster got it right. Blockbuster realized that it was in a unique position to address the customers on its given strength: store locations. However, in order to captivate the online movie renters, Blockbuster also needed to create an online business. With a twist. Blockbuster provided movie renters the best of both worlds - rent online or rent at the store, rent online and return to the store, rent at the store and return online (possibly), rent online and return online. Whereas Netflix only provided customers one service model: rent online and return online, Blockbuster now had the flexibility and delivery model to offer customers tremendous flexibility and choice. All for a monthly subscription fee which is the same as Netflix's monthly subscription. In retrospect, this innovation from Blockbuster made perfect sense. And now it was simply a matter of time before customers returned. Blockbuster became aggressive in the marketing, including the recent promotion inviting Netflix customers to rent movies on President's Day (when post offices are closed), and over the weekends. Also, asking customers to bring in their Netflix return labels for free rentals (with a membership). Blockbuster is appealing to the emotions of customers with the message that you can rent a movie on the weekend, when there's no mail or "just when the mood strikes" - providing a "freedom of choice" and not having to wait for movies as they arrive in the mail.

Blockbuster's new Total Access provides customers unlimited movie rentals, online or in the store. Blockbuster ended 2006 with 2.2 million subscribers and revenues closing in on $7 billion (to be announced next week). Importantly, in the last quarter of 2006, Blockbuster added 700,000 subscribers, beating Netflix by about 55,000 subscribers. Blockbuster's Total Access Model has the momentum. With timely promotions such as President's Day promotion, and Valentine's Day (where Blockbuster offered a list of favorite movies for the special occasion), Blockbuster is capturing the mindshare from movie renters.

Netflix answers back

Netflix Chief Executive Reed Hastings, in a Marketwatch story, told analysts after the recently concluded earnings call "that the company expects to see a modest increase in subscriber cancellations in the first quarter of 2007 as rival Blockbuster Inc. aggressively markets its new Total Access program, which enables its online customers to either return DVDs through the mail or exchange them at stores for free in-store movie rentals."

Hastings believes though that "Blockbuster's impact on its subscriber base should decrease in the second quarter." He added that Netflix observed a similar pattern in 2005, when Blockbuster cut its monthly subscription price and heavily marketed that move. In that case, Blockbuster "had already captured in [the first quarter of 2005] the few consumers most likely to switch," Hastings said.

The very fact that Blockbuster added more subscribers than Netflix's in the latest quarter has to make Netflix rethink their strategy. Netflix recently introduced the long-awaited plan to offer movie and TV downloads over the Internet. "Our accomplishments during the year -- strong subscriber growth, continued improvement in the customer experience, and increased profitability -- together with the recent launch of the first generation of our online video option, leave us better positioned than ever to achieve our long-term objective of being the movie rental leader," Hastings said in a press release.

Winner Takes All?

Who will be crowned the winner of movie rentals? Would it be Blockbuster whose stock price has appreciated more than 80% in 2006, and importantly, has finally figured out the appropriate formula: Blockbuster Total Access. Or would it be Netflix, who has found time and again to improve upon its business model, and has shown ability to innovate with the recently announced online movie downloads? What about Apple (NASDAQ: AAPL) with the iTunes Movie download service available to the millions of iPod owners and iTunes subscribers alike. Apple recently added 150 movie titles from Lions Gates (movies including "Saw", "Basic Instinct", "Dirty Dancing - Havana Nights") to the iTunes store, and is poised to grow the online movie business. Wal-Mart has re-entered the online movie rental business as well offering its own version of online movie downloads in partnership with the major movie studios and powered by HP (NYSE: HP). Finally, Amazon.com (NASDAQ: AMZN) has also recently expanded the Unbox online movie download service. Amazon.com and TiVo Inc. (NASDAQ: TIVO) recently announced "Amazon Unbox on TiVo," a soon-to-be-launched service feature that will provide TiVo subscribers with the ability to rent and purchase movies and television shows from leading studios and networks. There is also the DVDPlay rental kiosk service available at the local grocery stores through a station similar to a vending machine and providing DVD rentals for less than $1.30. And then there are all the cable operators and satellite TV operators coming up with various options to rent movies as well. The entire movie rental industry has many players vying for the top spot. If the online movie download business takes off, it can cause yet another disruption in the movie rental industry - in the same vein as what Netflix did earlier. It's only a matter of time before Blockbuster will offer its own online movie download service as well. Why not? Offer the customers all the choices, simplify the business model, and make it extremely easy for customers to rent a movie through any of the available mediums: in the store, online through mail, online through immediate download or directly through cable or satellite. Perhaps Blockbuster is in the best position to address this changing market of movie renters and movie rentals worth $25 billion dollar annually and growing. Perhaps no one player is.

Acknowledgements:

Blockbuster Press Releases, Quarterly and Annual Earnings reports

Netflix Press Releases, Quarterly and Annual Earnings reports
Marketwatch
Top Ten Innovations for 02-14-07
The Innovation Index

Chapter 34

General Electric and Proctor & Gamble – Innovations Driving Growth – Six Growth Principles

General Electric (NYSE: GE) and Proctor & Gamble (NYSE: PG) (P&G) are two of the top 18 Innovators in North America representing the The Innovation Index list of companies. GE stock is even for the year and down 11% since the new CEO took charge, while P&G stock is up 9% for the year and is near its all time high. Fortune magazine interviewed the CEOs of these two innovators in the December 2006 issue. GE has a daunting revenue challenge each year: create $15 billion or higher in new business each year or about the size of Nike's total revenue; on the other hand P&G needs to carve out $7 billion in new business each year, comparable to IAC Interactive's total revenue. Large numbers indeed. Fortune article explores in-depth on how these companies create innovations driving growth in the billions of dollars each year.

What drives this new business growth at GE and P&G?

GE's CEO Jeffrey Immelt and P&G's CEO A.G. Lafley focus on "growth" and "sustained excellence" that create new innovations in technologies, products, leadership and globalization -- key ingredients for new revenue growth.

The strategy at GE emphasizes sound business processes driving creativity and innovation, and is rooted on the following three pillars:

1. Focus on key technologies:
"Immelt wants GE to "own" certain technologies -- renewable energy, energy efficiency, nano-technology" and applications in medical imaging. GE wants to capitalize on the emerging market trends and assume leadership in those it goes after.

2. Growth-oriented leadership:
"After a study of fast-growing companies, GE managers are now evaluated on five criteria -- external focus, decisiveness, inclusiveness, risk taking, and domain expertise." This has the making of an innovation factory that encourages calculated entrepreneurship led by domain managers while taking into consideration company policies and processes.

3. Business portfolio:
"Immelt has jettisoned much of GE's insurance business, while bulking up in health care, water, security, and other areas." GE wants to focus on the core businesses where it is in the position of market leadership, and position itself for organic growth.

There are similarities between the Innovation strategies of GE and P&G. For instance both companies have divested non-core businesses. Both emphasize strong leadership and innovation accountability. Both are focused on new products driving current and future growth.

The strategy at P&G is buoyed by the following three pillars driving new innovations:

1. Brand mix:
"Lafley has divested such stalwarts as Crisco, Jif, Pert Plus, and Sure, while spending big to buy Clairol, Wella and Gillette (including Braun and Duracell)." The driver at P&G is focus on the core and the critical few products that create pervasive, global brand and market leadership.

2. Global top team:
"P&G does more than half its business outside the U.S., so Lafley has recast his top executive group to be 50% non-American." P&G has taken bold steps to talk the talk and walk the walk by making it a truly global multi-national company thereby driving growth internationally.

3. New products:
"Lafley has shifted P&G's focus from inventing all its new products to developing others' inventions at least half the time." For instance, Mr. Clean Magic Eraser was successful because of a product found in an Osaka market. Do you buy, build or partner to create new innovations? P&G does all of the above, but has also gotten smarter on leveraging existing ideas and inventions from partners and turning them around on a dime to create new markets.

In a Q & A with senior editor Geoff Colvin, P&G CEO Lafley had this to say on Innovation:

"*We've got to grow market shares and move into adjacencies and create new categories of business. So the name of the game is innovation. We work really hard to try to turn innovation into a strategy and a process that's a little more consistent, a little more reliable, so that we can build a portfolio of innovations and the yield we need to get that $6 billion or $7 billion a year*."

GE CEO Immelt agrees with Lafley on the core principles that drive growth and innovation. He adds: "*It's important to make growth a process...Just like A.G (Lafley), I want a pipeline of innovation. Some projects will fail. But the goal for a company like ours or P&G is using size as an advantage. Most people just assume that big companies are slow and lethargic, and only a small company can grow. But if you get good processes, you can make size an advantage*."

Both Lafley and Immelt believe that "*narrowing the focus makes a difference*." Rather than doing too many projects at once (read few dozen), their companies focus on key innovations in markets that they can literally own (less than a dozen). Further, R&D and Leadership centers are distributed globally and reengineered to take advantage of the new technologies and global business trends. And in particular, new global partnerships are formed to co-create innovations. Lafley admits: "*We did have to kill not-invented-here. We have to make 'reapplied with pride' just as important a part of the culture as 'invented here*.'"

In response to globalization and competition, and its impact on the economy, Immelt argues that "it's all about innovation and technology." He gives an example of the jet engine business at GE, where GE is the world market leader, and spends $1 billion annually on R&D. Immelt states that "we can go toe to toe with anybody, and we'll be able to do that for a very long time." However, in other areas such as appliances, he believes that GE has to take steps to make profits and hence manufacture overseas. The key though is readiness, willingness and motivation to compete for the future according to Immelt. Lafley adds that both companies offer retraining, early retirement, and employee benefits to provide best opportunities to employees who get impacted by globalization. And at times Lafley believes one needs to be creative in dealing with this area.

GE and P&G are two of the top 18 innovators in The Innovation Index. Together, they do over $230 billion in annual business, a number larger than GDP of many countries of the world. And yet, they must find new ways of innovation to grow at least 10% each year, or add about $23 billion in new revenue. Leaders Immelt and Lafley provide us the blueprint of creatvity and innovation that drives huge revenue growth each year at their companies.

Acknowledgements:

Fortune Magazine: Lafley and Immelt: In Search of Billions
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Chapter 35

Can Dell turnaround Dell? Seven Answers

Dell Inc. (NASDAQ: DELL) is one of the Top 20 Innovators of The Innovation Index. Dell has seen its market cap go down by about 20% in the last thirteen months, in large part due to average quarterly and annual top-line revenue growth, reduced profits, and losing the number one position as the world's top supplier of new computers to Hewlett-Packard (HP) (NYSE: HPQ), another Top 20 Innovator of The Innovation Index. Michael Dell, the founder, founding CEO and chairman of Dell Inc., took over the CEO roll of Dell again. Dell made Dell the number one computer company in the world. Now, Dell has perhaps the toughest act of his career: Turnaround Dell, beat HP, and make Dell the number one computer company in the world – again!

How can Dell turnaround Dell?

Dell has to go back to basics. What made Dell the number one computer company in the first place?

Computers. Dell computers, laptops and servers were considered the best in the industry. And Dell became the household name when it came to buying computers. Dell was the perceived high quality brand. **Dell must focus on the core business: Computers**. Rather than creating average computers and discounting the computers to gain market share, Dell needs to design a new line of computers that appeal to the masses, business, government and IT. **Dell = best computers.**

Education. For example, why can't Dell design a computer only for school students? A specific computer made for the students in K-12 market, and college students? Not just a computer marketed to the schools – rather a computer that is designed with the need of students in mind from the inside out. This must include educational software, computer design that integrates needs of students (for instance, a scientific calculator on the keyboard), and online services and internet programs that students are most likely to use. **Dell = education computers for students**.

Teenagers. Dell has to appeal to the teenager market. Teenagers are the high growth market, and they have money to spend – albeit they spend it on cool music and toys such as Apple's iPod (Apple is another Top 20 Innovator of The Innovation Index). Dell must create a computer that appeals to the teenagers. Dell has to make Dell computers cool again. Dell should take a page out of Apple's cool design and function. **Dell = cool computers for teenagers**.

Women shoppers. Dell should also think about the market of women shoppers. There are many professional women buying computers, single households led by women who are looking to buy computers for themselves and kids, women in schools and colleges, and women in non-profits and government. What can Dell do to appeal to this largely ignored market? Can Dell create specialized computers that appeal to the needs of women at large? What would that line of computers look like? **Dell = appealing computers for women**.

Home Bundle. When I go online to buy Dell computer, I can only buy one computer at a time or more than one computer of the same type on my own. Why is this so? What if I am looking to buy a laptop for me, a computer for my child, and a computer for my wife? Does Dell provide such a home bundle that I can readily choose. How about a Dell Home Bundle? Dell Home Bundle can include combinations of computers and laptops pre-packaged for various needs of the home, including home networks, wireless, entertainment center, etc. All I have to do is go online at Dell.com and choose Home Bundle. And I am provided various options all at once. **Dell = Home Bundle**.

Best Business Computers. Dell must make the business computers and servers the best in the business. Even a small business owner is looking for the very best at a reasonable price. Dell quality must become the standard in the industry. Dell performance must be second to none. Dell service should be topnotch. Dell must equate to the best investment there is when it comes to buying computers for business. First, Dell must make their computers the best there is in terms of quality, performance, service and price; second, Dell must market their computers to the business as the best there is and create this indelible brand perception; finally, Dell must provide a replacement program for old computers at businesses. **Dell = Best Business computers**.

How can Dell beat HP?

Dell became the number one computer company in the world with the **Dell Direct** business model. Consumers and small businesses went to Dell.com and easily configured the computer that they were looking for, and purchased it online. Dell promptly made this computer, and shipped it to you within a week. Larger businesses are also able to configure and buy their computers online; they also have the option of a dedicated account manager. The beauty of Dell Direct model was that there were no middle men – no margins, no distribution to worry about, and cutting-edge products. The Dell Direct model made sense during the Internet boom years and when the model was new and not easily imitable by Dell rivals such as HP. However, *Direct model cannot be the *only* business model for buying computers*.

If HP can sell computers online and also through retail channels, why can't Dell do the same? **Dell has to go retail – not just as an extension of the Dell Direct model, but as a completely new business**. ***Consumers and businesses of today are researching and shopping online, researching online and buying retail, researching retail and buying***

online, researching retail and buying retail. Dell predominantly provides only one choice - online. Dell must find ways to open up the retail channel, and create computers specifically for the retail market. Dell can also provide kiosks at retail stores so that customers can simply configure computers at the retailers, and take immediate delivery at the store, buy a computer readily available at the retailer, or have it shipped to their homes or business. When Dell offers customers ready options where they can buy computers both online as well as in retail stores with the same ease as buying online, Dell would begin to grow the overall computer business and retake the lead from HP. This could easily take a year or two before Dell establishes itself as the premier Direct and retail computer brand.

How can Dell become the number one computer company in the world?

Customers outside the U.S. are used to buying computers through distributors, resellers, local companies who assemble computers, retail stores and through a lot of hand holding. The last point is very important: **hand holding**. Customers need advice on what is the best computer that meets their needs, and want to try out that computer in a store before they purchase it. There is even some negotiation involved. Customers need some help setting it up at their homes or business. **The key insight: only a small segment of customers buy computers direct outside the U.S.** The majority of the market does not buy direct. If this is the case, Dell must reinvent itself if it were to become a truly global player. Dell cannot sell only through Direct model outside the U.S. at least to emerging countries such as India, China, Russia, and Brazil. Dell should rather leverage the Dell brand and sell through the normal channels that the customers of these countries are acquainted with. HP's market share grew in large part due to the worldwide shipments outside the U.S. HP has established retail, reseller and distribution channels worldwide. Dell must quickly do the same. And once the Dell brand is established in the country, Dell can then begin to introduce the Direct model. But Dell cannot, must not lead with the Direct model.

Michael Dell is a visionary, innovator and a creative leader, focused on execution and results. He made Dell the number one computer company in the world. Dell is on a mission to turnaround Dell, beat HP and make Dell the number one computer company in the world – again! If I were a betting man, I would definitely bet on Dell. If Dell is indeed successful in making Dell the number one computer company in the world again, Dell will forever be enshrined in the Hall of Fame of Visionary leaders of both 20th and 21st centuries.

References
Dell press releases

Chapter 36

Innovations Brewing At Starbucks – Five Takeaways

Imagine this:

A Card that brought in greater than $2.17 billion in revenue since 2001.

A Card that gets renewed or in this case reloaded over 38 million times and counting.

A Card that customers "hang on to" literally, and carry around in their wallets (and are even proud to show it).

A Card that will find over 15 million new card owners this holiday season (possibly one of the top holiday gifts).

A Card that will bring in more than $170 million in sales, and more than 10 percent of the company's revenue in a quarter.

A Card that revolutionized the gift card industry which is worth $24.8 billion, and growing $6 billion each year.

This must be a credit card!

NOT!

Welcome to the world of coffee and the Starbucks Card!

Starbucks Corporation (NASDAQ: SBUX) is one of the top 18 innovators in The Innovation Index. SBUX is up 18% for the year owing to the many innovations it brews each year including the highly successful Starbucks Card that it introduced five years ago and catalyzed the industry of gift cards (as of the last Innovation Index weekly report). Starbucks is on an exponential growth tear for the last five years, having grown revenue from $2.6 billion to $7.8 billion in the last five years, with CAGR of 24.10%. How does Starbucks do this? Besides opening new stores at every major intersection where there is a shopping center, at exclusive mall locations, grocery stores, in office complexes, even residential complexes both locally and internationally, and very soon perhaps in residential neighborhoods (if Starbucks has its way), Starbucks has literally created a world of exclusive coffee drinkers overnight who can't have enough of their $2.50 lattes. All these growth has also created complaints against Starbucks from the organic lobby and coffee growers over the world complaining of unfair trade practices.

Starbucks latest quarterly earnings grew to $2 billion, up 21% from $1.659 billion in the year ago period. The report reveals many innovations driving revenue growth of over 20% year over year:

1. Starbucks opened 1,040 new stores, including opening of and planned stores in Egypt and Cairo. Further, the innovator is planning to open 2,400 stores in fiscal 2007, and around 700 stores overseas. Starbucks has perfected the innovation process around selecting a new store location, opening the store in record time, and generating superior margins and cash flows within two years.

2. The quarterly Company-operated retail revenues increased 22% to $1.7 billion, from $1.4 billion for the period year period. The increase was primarily attributable to comparable store sales growth of 5% for the quarter compared to the year ago period. The increase in comparable store sales was due to a 4% increase in the number of customer transactions and a 1% increase in the average value per transaction. This was led by innovations across the beverage menu as well as food offerings - increased selection, price changes, and better packaging.

3. Specialty Services revenues increased 16% to $309 million, compared to $267 million for the prior year period.

4. Licensing revenues increased 21% to $223 million versus the prior year period. This was primarily due to higher product sales and royalty revenues from the opening of new licensed retail stores and, to a lesser extent, growth in the licensed grocery and warehouse club business.

5. Foodservice and other revenues increased 5% to $86 million, versus the year ago period. This increase was primarily due to growth in the U.S. foodservice business, partially offset by lower entertainment revenues which included revenue from the sales of Ray Charles' Genius Loves Company CDs outside of Starbucks retail stores in the fourth quarter of 2005.

It is evident that new revenue growth is not just created by opening of new company operated stores, but by higher sales at existing stores, specialty services, licensing, foodservice and entertainment sales.

Starbucks Innovation pipeline in 2006 and beyond

Starbucks is literally planning to transform the Coffee Vending industry, expand reach in Canada and U.K., and accelerate roll-out of warm breakfast offerings in the U.S. with various partners as per the "innovation pipeline" announcement in October, 2006.

Gerry Lopez, president of Global Consumer Products Group at Starbucks, announced that

Starbucks wants to "transform coffee vending with its plans to offer superior hot latte and cocoa beverages through the Starbucks hot vending initiative" in partnership with PepsiCo. Lopez also announced an expanded relationship with Kraft to distribute coffee in Canada and the United Kingdom as well as plans to roll out Starbucks™ Coffee Liqueurs to Canada later this month in partnership with Beam Global Spirits & Wine, Inc.

Innovations beyond the stores

"Through the Starbucks hot vending initiative, Starbucks aims to transform the hot coffee vending experience by creating a new, high-quality hot drink segment within the estimated $900 million ready-to-drink beverage category in the U.S. The planned introduction of Starbucks hot vending will mark a significant advancement within the vending industry. Unlike any other coffee vending experiences in the market, the Starbucks vending platform utilizes proprietary heat-on-demand technology, developed by PepsiCo, which will offer customers yet another convenient way to enjoy Starbucks on-the-go."

Why is this hot vending initiative innovative? "Through research and product testing, Starbucks and PepsiCo learned that the common complaints about existing coffee vending included lack of consistent, high-quality coffee, as well as issues with messy and hot-to-hold cups. To tackle these obstacles, Starbucks and PepsiCo developed this revolutionary approach to hot coffee vending. With a simple swipe of a payment card (or with cash), a high-quality, hot latte or hot cocoa is served up in a ready-to-drink package in less than a minute. Utilizing proprietary packaging, each hot beverage will come in a convenient 9 fluid ounce recyclable steel can with an insulating label, designed to keep the beverage warm, enjoyable, and still comfortable to the touch." Starbucks is planning to recreate the quality and experience of drinking coffee at a Starbucks location with the convenience of savoring it anywhere, and paying for it with cash, Starbucks Card or with a major credit card such as MasterCard®, Visa®, American Express® or Discover®. Hot beverage offerings will include Caffè Latte, Vanilla Latte, Caffè Mocha, Caffè Mocha Light, and Hot Cocoa. Expect Starbucks to hit another home run with this innovation and create another revenue jump in 2007.

Distribution Innovations

"Starbucks also announced the expansion of its relationship with Kraft to distribute Starbucks® coffee to a wide variety of retail channels across Canada and the United Kingdom. This will mark the first time Starbucks® coffee will be available through these channels in the U.K. For Canada, the expanded relationship with Kraft will allow Starbucks to further strengthen its presence within grocery and other channels.

Since 1998, Kraft has been Starbucks strategic partner in distributing Starbucks® coffee to a wide variety of retail channels including grocery, drug, mass merchandising and club stores in the U.S. Expanding into two new countries allows Starbucks to build on the success of the relationship and allows the Company to leverage Kraft's extensive distribution network."

Starbucks formula is to create a world of coffee drinkers through massive distribution. It is innovations such as the expanded partnership with Kraft that will bring Starbucks even closer to a store near you, and generate higher sales for Starbucks in 2007.

Niche Product Innovations

"Starbucks Coffee Company and Beam Global Spirits & Wine, Inc. are rolling out Starbucks™ Coffee Liqueur and Starbucks™ Cream Liqueur (in Canada). The mixable and versatile liqueurs, which will be positioned beyond the traditional cordial profile, are the first of their kind to feature 100 percent Starbucks® coffee, which is then blended with the finest spirits. These products will be available wherever wine and spirits can be found, not at Starbucks retail stores."

As if coffee drinking was not sufficient, now Starbucks wants to participate in the booming liqueur industry in partnership with established brand such as Beam. Watch out Kahlua. Starbucks is about to invade your decades long hold on the coffee liqueur. And why not? Customers will want more Starbucks coffee in their liqueurs too.

Innovations within Starbucks Stores

"Because Starbucks is committed to providing its customers with the most innovative beverage, food and merchandise offerings found anywhere, the Company announced an expanded warming rollout for food.

Noting that "great coffee deserves great food," Michelle Gass, senior vice president for Category Management at Starbucks, revealed plans to greatly accelerate the Company's roll out of its Warming program for food, including breakfast sandwiches, in its Company-operated retail stores. The Company began testing a warm breakfast sandwich assortment in 2004 and closed that fiscal year with 97 stores offering Warming. That number has grown to approximately 640 stores today and the Company has projected that by the end of fiscal year 2008, there will be approximately 6,500 stores offering Warming.

"Food is becoming a central part of the Starbucks Experience and a key driver for our growth," Gass said. "During the last four years, we've seen growth of our food sales outpace our total store sales growth. We attribute this to our focused effort to provide higher quality food options, for different day parts, that can meet the high standards that we place on our beverages.""

In 2006, Starbucks introduced new whole bean coffee and packaging, Starbucks® Pike Place Blend and Starbucks® Anniversary Blend for a limited time throughout the U.S. and Canada to commemorate the Company's 35th anniversary. Starbucks has launched more than 20 new beverages in the last two years with the most recent addition, the Maple Macchiato.

Starbucks is expanding beyond coffee, and this has to make the food industry queasy. Although today, Starbucks is offering breakfast and lunch sandwiches, and brand new beverages such as Maple Macchiato and various health food bars in its own stores, it is a matter of time before Starbucks offers the ready food and sandwiches to regular grocery and convenience stores. After all, the hot vending machine will already provide Starbucks shelf space and entry into convenience stores. What will happen to Starbucks revenue growth? Are we witnessing the beginning of a new food disruption in the making? It is innovations such as Warming which complement coffee that create higher same store sales growth each quarter.

Innovations in Entertainment

The Starbucks Hear Music™ Coffeehouse are created for specific markets, "not only through the architectural design, but also with music selected by the Hear Music content team with regional preferences in mind. The unparalleled combination results in a compelling third place destination for customers to connect over coffee as well as explore, discover, personalize and buy quality music in a warm and inviting environment."

The Starbucks Hear Music™ Coffeehouse "offers customers the ability to browse through the extensive physical CD inventory, which includes a music selection that has been hand-picked by the Hear Music content team to appeal to the local and regional tastes (of a particular location). Customers can also explore a digital inventory of more than one million digital tracks featured on the more than 25 Hear Music™ media bars throughout the store."

Failed Innovations

Starbucks recently announced that it is leaving the Jewel food stores in Chicago area beginning early 2007. Dominick's, Jewel's primary competitor, is planning to add more Starbucks stands in their stores. Perhaps the relationship between Starbucks and Jewel soured due to distribution margins or product placement or both. Starbucks does not always win on all the new initiatives. However, as is evident, even here when Jewel food stores is no longer going to carry Starbucks cafes (and their terms), Dominick's is already planning to add more Starbucks throughout its stores.

Bottomline

Starbucks is one of the top 18 innovators on The Innovation Index. Starbucks has become a pervasive coffee brand throughout the world, and the company is cleverly exploiting the Starbucks brand to launch new innovations in complementary and adjacent industries accounting for the solid revenue growth. The world according to Starbucks begins with a fresh hot Starbucks Caffè Latte made at your neighborhood Starbucks store, or from a hot vending machine at the convenience store using your very own Starbucks Card, a delicious breakfast sandwich or a health bar loaded with almonds (made by Starbucks), another trip to quench that caffeine thirst in the afternoon from the Starbucks store next to your workplace (and another Starbucks sandwich or brownie snack), listening to your favorite music created on a CD burned at the Starbucks Hear Music™ Coffeehouse as you drive to work and back and while you relax, and finally a late evening postprandial Starbucks™ Coffee Liqueur. Starbucks wants you to become that frequent customer who spends upwards of $10 each day on a combination of their handcrafted coffee beverages, sandwiches, cookies and music. Starbucks monthly allowance anyone?

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Chapter 37

Southwest Airlines Flying High With Ten Innovations

Southwest Airlines (NYSE: LUV) is one of the top 20 Innovators in The Innovation Index. Southwest Airlines (Southwest) revenues have soared in the last three years from $5.9 billion in 2003, to $7.6 billion in 2005, with expected revenue of about $9 billion in 2006. Southwest stock is down 3% for this year as reported in our weekly Innovation Index report. However, the stock moved up 2% last week, and is bound to move higher before the New Year rolls in because of falling oil prices, increased holiday travel, share repurchase program, and new business growth driven by innovations. Barron's and Fortune also rated LUV a buy last week, and expect solid performance from Southwest for 2007.

"We are very excited about our near-term growth opportunities and pleased with our earnings momentum. Our year-to-date earnings are up 77.9 percent. Therefore, assuming continuance of the current healthy revenue environment, we expect to easily exceed our 15 percent 2006 annual earnings growth goal," said Gary C. Kelly, CEO of Southwest in the earnings press release in July, 2006. Kelly affirmed that: "Our People are the reason Business Week named Southwest one of the World's Most Innovative Companies and why I am confident we will overcome tomorrow's cost challenges and make our airline even stronger than it is today."

Southwest provides the best overall value in low cost airline travel. Southwest may not offer all the frills, but does offer clean all leather seats with reasonable leg room, along with basic compliments including pillows, blankets, snacks, juice, soda, and water on all flights. The best available feature is no charge for changes on full-fare reservations. Southwest serves 63 cities in 32 states, operates more than 3,150 flights a day and has more than 32,000 employees system wide. It boasts the highest number of passengers enplaned domestically, and has the lowest customer complaints of any domestic airlines.

What are the top ten key innovations that make Southwest Airlines soar higher, drive new growth, and perform better than the competition? Here is my list of the top ten innovations at Southwest:

1. New destinations

In 2006, Southwest began offering direct services from Denver and Washington Dulles airports.

Southwest began serving Denver in January 2006, and currently offers more than 32 daily nonstop departures to nine cities, with direct and connecting service to an additional 44 cities. The addition of Denver service has been a huge hit for Southwest travelers, and in the coming years is poised to become a top ten major airport for Southwest business.

Southwest recently began serving Washington Dulles International Airport in October of this year. Previously, Southwest only served Baltimore airport. The addition of a low cost service out of the nation's capital will add topline revenue in 2007 and beyond. The travelers are expected to buy out all the travel Southwest has to offer out of Dulles for the foreseeable future.

2. Low fare sales

Southwest leads all airlines in the most low air fare sales offered throughout the year, but especially around holiday and peak travel seasons. Whereas most airlines look at peak travel seasons to maximize profits, Southwest leads by offering low fares to lure customers into flying frequently.

The following are just a few examples of the low air fares that Southwest offered during this peak holiday season:

$49 one-way fares between Baltimore/Washington and Cleveland; between Reno/Tahoe and San Jose; and between Philadelphia and Raleigh Durham.
$99 one-way fares between Birmingham and St. Louis; between Nashville and Detroit; and between Boise and Las Vegas.
$109 one-way fares on Tuesdays and Wednesdays for travel between Columbus and Phoenix; between Kansas City and Sacramento; and between Los Angeles and San Antonio.

3. New nonstop services

Southwest recently announced the addition of 33 new nonstop flights in 26 city-pairs across the nation, including brand new nonstop service between Baltimore/Washington and Pittsburgh, between Cleveland and Orlando, between Dallas Love Field and Birmingham, and between Reno/Lake Tahoe and San Diego. Southwest Airlines earlier also launched new nonstop service between Detroit Metro and Orlando and an additional nonstop between Denver and Orlando. Air travelers want to fly nonstop between the cities of their choice, and Southwest provides them the freedom to travel nonstop at economical prices.

"Southwest Airlines is an efficiency machine -- we strive to make the most effective use of our resources," said Gary Kelly in a press release for new nonstop service. "Through optimization, innovation, and efficiency, we are adding these new flights, which reaffirm our commitment to our Customers to grow our service."

4. New vacation packages

Southwest Airlines Vacations recently added Hawaii vacations to the family of 43 U.S. package destination hot spots. Southwest does not have planes flying to Hawaii. However, when Southwest realized that many of their vacation travelers chose Hawaii as a top destination, Southwest created this partnership and codeshare service with ATA Airlines. This relationship allows Southwest Airlines Vacations to offer air-inclusive vacation packages to the Hawaiian Islands of Oahu (via Honolulu) and Maui. In addition, Southwest Airlines Vacations also offers a land-only package to Kauai and an air-inclusive vacation packages to Hawaii's Big Island (via Hilo).

"We are excited to expand our product offering and offer travelers Hawaii vacation options," said Rich Basen, Vice President and General Manager of Southwest Airlines Vacations. "Prior to adding Hawaii to our vacation destinations, 22 percent of our Customers told us that their next vacation would be to a destination that we did not serve at that time. Travel packages to Hawaii were on the top of their lists. This opportunity allows us to combine Southwest Airlines' famous low fares and Customer Service with the well-known hotel, transportation, and attraction discounts offered with our vacation packages. We believe our Customers and travel agents will be very pleased."

5. Cultural Leadership

Southwest recently launched the Washington Dulles International Airport service with Station Leader Brian Fairbanks and Marketing Manager Craig Keish leading the charge. Besides providing the work history of both Fairbanks and Keish in the press release, Southwest brought out the people facing side of leadership that they bring to the table. Fairbanks has been with Southwest since 1990. In the press release, Southwest talked about the ten things their customers should know about Fairbanks and Keish:

Brian Fairbanks:
1. Enjoys SCUBA diving.
2. Has 38 cousins.
3. Is 25 percent Chippewa Native American.
4. Lived in Germany for two years while in the U.S. Army.
5. Has had perfect attendance for 15 years of work.
6. LUVs to play softball.
7. Has lived in nine states.
8. Plays the guitar.
9. Originally went to school to be a history teacher.
10. Is a self-proclaimed computer geek.

Craig Keish:
1. Was a Southwest intern for three years in Albuquerque.

2. Has lived in seven different states because his father was in the military.
3. Loves the Ohio State Buckeyes because his family is originally from Ohio.
4. Went to college at the University of New Mexico and threw javelin on the track team.
5. Attended New Mexico State for his first year of college and played football for the Aggies.
6. LUVs green chili and puts it on everything from pizza to hamburgers.
7. Was the "I" in DING at the first Philadelphia parade.
8. LUVs football, college football in particular.
9. Works with his fiance's mom.
10. LUVs to vacation in Maui.

It is this type of sharing of cultural values and leadership that makes Southwest a favorite among travelers.

6. DING!

Southwest leads all airlines with an innovative service named DING! introduced in February, 2005. DING! is a messaging cum communication service that brings fare specials directly to the customer's computer desktop; only DING! customers can benefit from these great fares. Southwest is the first airline to innovate customer relationship and communication, and creating "direct link" to customers' computer desktops. Southwest upgraded the DING! service in 2006 that now allows subscribers to receive spectacular fare specials from up to ten of their favorite airports.

"DING! updates are a big hit with airfare bargain hunters and Southwest's loyal Customers alike," said Anne Murray, Southwest Airlines Senior Director of Online Marketing. "DING's! new flight specific offers create even lower fares, giving Customers the independence to take an unplanned getaway."

"The popularity of DING! is evident," Murray said. "More than $130 million in DING! fares have been booked since its introduction in February 2005."

7. Excellent Quality of Service

Southwest leads all airlines with the lowest complaint rate, and the "warm, friendly, and often funny" quality of service. Recently, the airlines Cargo business received the 12th straight Quest for Quality Award by Logistics Management magazine by placing first in On time Performance, Value, Customer Service, and Equipment and Operations. Southwest's overall score ranked first among all of the Air Carrier award winners. When a traveler flies Southwest, their service is always consistent.

8. Fuel Price Hedging

Southwest had the foresight that fuel prices were going to go higher, and hence began hedging against the rise of prices so that the effective price of fuel remains lower than the current street price. In second quarter 2006, although jet fuel costs per gallon increased 39.2 percent to $1.42 per gallon at Southwest, it was still lower than the industry average of over $1.65 per gallon. Further, Southwest is 73 percent hedged for the remainder of 2006 at approximately $36 per barrel, which is 50% less than the average street price; 65 percent in 2007 at $41 per barrel; 38 percent in 2008 at $40 per barrel; 34 percent in 2009 at $44 per barrel; and 12 percent hedged in 2010 at $61 per barrel. Southwest has effectively hedged and insured their business with years of price protection on fuel thereby maintaining profitability and sound financial health -- most airlines suffered when the fuel prices went up, and some even sought bankruptcy. Southwest is not resting on fuel hedging along; it is planning to install Aviation Partners Boeing Blended Winglets on up to 90 Boeing 737-300 aircraft with 59 firm orders and 31 options beginning in 2007. This will further conserve the fuel costs.

9. Boarding Process re-engineering

The innovative efficiency of Southwest's boarding process is key to Southwest's successful business model over the last 30 plus years; whereas initially, many airline competitors thought the Southwest way of boarding as boarding cattle and quite rudimentary, and ridiculed the whole process, Southwest has proved that by limiting aircraft time on the ground, it has been able to maintain an enviable ontime record at a significant cost advantage over its competitors. And travelers are happy with the process since it saves them time as well. Southwest is not resting on their laurels though. This year, Southwest conducted a limited test of several boarding methods to see how much time is required to "turn" the aircraft if Customers are holding an assigned seat for 200 separate departures at San Diego airport. Southwest ultimately wants to measure the combined success of assigned seating, customer satisfaction, ontime performance and efficiency on its business model.

"We want to make sure that we have studied all the possibilities and aspects of assigned seating before we make any change to what has been a very successful formula for the past 35 years," said Gary Kelly, Southwest's CEO. "This evaluation is an important step to determine the feasibility of assigned seating, but this is only a test."

10. Aircraft savings

Southwest is looking at new ways to save costs as it acquires new aircrafts for newer destinations and services. Southwest has been actively exploring the used aircraft market for additional 2006 aircraft and acquired one 737-700 during the third quarter, its initial foray into saving costs yet providing great safety. Southwest also signed an agreement to acquire another previously owned 737-700 aircraft. Cost savings resulting from buying used aircrafts has an impact on the earnings growths, and would definitely help

Southwest meet their 15% earnings growth target for the year.

Bottomline

Southwest Airlines is one of the top 20 innovators in The Innovation Index. Whereas most airlines are struggling to stay afloat, much less become profitable, Southwest is soaring high by consistently showing profits, creating double-digit earnings growth and producing new innovations over the last several years. It is technology innovations such as DING! that brings Southwest that much closer to its customers who leverage the communication and messaging service to buy more tickets. Southwest.com is quite possibly the easiest to use airlines reservation service in the market. Expect Southwest to continue its run of innovations and strong growth in 2007 and beyond.

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Chapter 38

Innovations at Microsoft – Four Business Pillars

BusinessWeek, in their annual list of the world's 25 Most Innovative Companies for 2006, ranks Microsoft at number 5. Microsoft ranked superior in Product and Business Model Innovations with Windows and Office, and Windows Live Services.

Microsoft today released the much awaited Windows Vista, Office 2007 and Exchange 2007 for businesses. CEO Steve Ballmer claims this to be the "biggest launch we've ever done."

Importantly, Ballmer believes that Vista will spur a new 'Wave of Innovation". Ballmer claims that a "new set of applications are also being brought to market and enabled by the core innovations in Office 2007 and Vista. Some 30 new products will come to market over time on the back of this wave of innovation."

What are these new Innovations from Microsoft?

The new Windows Vista, Office 2007, Exchange 2007, SharePoint Server 2007, Exchange Server 2007, Enterprise versions of both Vista and Office 2007 with new capabilities such as enterprise services for Exchange and SharePoint, Unified Messaging Services for Exchange, Exchange Hosted Services, Forefront Security for Exchange, Forefront Security for SharePoint.

What's coming down the Innovation road?

Office Communicator 2007, Office Communications Server 2007, Voice Call Management for Office Communications Server 2007, Office Performance Point Sever 2007, data mining add-ins for Office 2007, the Windows Desktop Optimization Pack, Forefront Client Security, System Center Configuration Manager and client, and System Center Operations Manager and client.

Asked on what else Microsoft could put into the next version of Windows, Ballmer said there are a "lot of things we never got to with Vista that we will work on going forward. There are improvements to be made in networking infrastructure, we need to take advantage of the shift to multicore processors, and there is a lot more to do for IT administrators to make systems simpler and cheaper to deploy."

Microsoft is also planning on service enablement inside of Windows. "That is a big theme and you can expect to see a lot more services enablement going forward," Ballmer said

Four Core Pillars of the Business Market

Ballmer talks about the four core pillars that make Microsoft's People Ready business fulfill today's business needs:

The **first pillar** is helping simplify how people work together, with unified communications a dominant theme in that regard, and which encompasses VOIP (voice over IP)—technology that will ship next year—e-mail, IM and video.

The **second pillar** is finding information and improving business insight, which includes finding information, searching documents, e-mail and people; integrating systems through XML and Web services; analyzing information through visualizations; and reporting and empowering decisions through business intelligence, portals and search.

The **third pillar** is helping people protect and manage their content, including retention and rights management; drive encryption and backup; and electronic forms.

The **fourth pillar** is about reducing IT costs and improving security.

Ballmer also emphasizes that staying in sync with information is another core need, encompassing Wikis, blogs and RSS, with collaboration and workflow very important in allowing people to connect and share easily. Working remotely with mobile PCs is another big area.

At the launch event, Diane Prescott, a technical product manager for Microsoft, demonstrated how data can be accessed through Outlook. Outlook Voice Access allows users to dial in and manipulate their e-mail and calendar, and it can also dynamically detect when a foreign language has been used, she said. Outlook Web Access has also been changed and now allows users to wipe clean a device they may have lost or that has been stolen to protect company data, she said.

"Vista is the first product developed under the SDL (Security Development Lifecycle), making it more secure. Deployment also has to be simplified, and a single image helps in this regard. Security risks also have to be mitigated, support costs reduced and identity and access controlled...," Ballmer said.

Innovation and Creativity talks abound

In a Q & A between Ballmer and eWeek Senior Editor Peter Galli, Ballmer made many references to Innovation and Creativity as strategic to Microsoft:

In answer to Galli's question on how you make the Windows development process more

agile, especially when it took five years in the making, Ballmer talks about:
"It's that first period where we had the greatest learning. We are going to incubate, or incubate and innovate, instead of trying to do all this integrated innovation."

In response to the incubation of new technologies, rather than just having integrated innovation, going forward, Ballmer says:
"Let me give you an example: WPF, Windows Presentation Foundation, we have it in the marketplace, but the Windows shell doesn't use it yet. And that's OK.

If we tried to hold Windows until the shell could rewrite, then we're back on very long cycle times.

It's a good example of incubate or incubate and innovate than opposed to innovating and integrating all in one big bang."

Ballmer also talks about innovation in the context of when Microsoft will cross the line and what new technology goes on which track:
"I mean, it is not like we are not going to do any integrated innovation, it's just that we are thoughtful and we have to learn from experience where we are crossing the line beyond the state-of-the-art innovations coming together."

While talking about Windows-enabling service and how Microsoft will be one of the biggest service providers through Windows Live, Ballmer suggests:
"So that platform, the end-user platform, the developer platform, for rich-client code, be it on PCs or phones—which are getting smarter, not dumber, that's important innovation that needs to be supported by service and enable service and we're working hard on all aspects of that issue."

Finally, Ballmer provides this gem in response to "How does becoming far more of a services provider play out with your partners and those traditional service providers?”
"Every innovation is both an opportunity and a threat for anybody in our industry, be it a partner or competitor."

And Ballmer goes on to state: "Well, in the grand scheme of things, partners have done fine, and the move to software as a service should again be an enabler of new and different kinds of creativity."

Bottomline

Microsoft recently launched the media player Zune in response to iPod’s market leading innovation. It has received a tepid market response. I even argued that Zune has the potential of being a disruptor in the long term.

Is Microsoft launching a new wave of innovation with Windows Vista, Office 2007 and Exchange 2007 and some 30 new products? Or are these merely nice-to-have product enhancements that users were asking for, and were just delayed for the past few years? Who is going to benefit the most from this new wave? The Small Business or the Enterprise or the Developer? The productivity worker or IT? And how difficult will it be for IT to upgrade and for users to take advantage of these new innovations? The major new features, four core pillars, and all the talks about Innovation and Creativity can make your head spin as you try to sort out how this will fundamentally impact you, the person, in Microsoft's grand scheme of People Ready business. And one can argue that Microsoft has not yet service-enabled Windows, not taken advantage of multi-processor architecture, still has some work cut out in network infrastructure, and need to win over IT in general. And the biggest question is still left unanswered: What is Microsoft's innovation strategy vis-à-vis Google and the new Web?

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Chapter 39

Direct Marketing and Direct Mail Innovation at USPS ®

According to Direct Marketing Association -- DMA, direct marketing generates incremental sales of more than $1.93 trillion in the U.S., or 10.3% of the U.S. GDP. Direct Marketing delivers more than double the ROI of other marketing efforts -- each Direct Marketing dollar spent generates an ROI of $11.65 compared to an ROI of $5.29 for other marketing programs. Direct Marketing employees total 1.7 million, with collective sales efforts supporting 8.8 million other jobs, or a total of 10.5 million jobs in the U.S.

The United States Postal Service -- USPS delivered over 210 billion pieces of mail in 2005, an increase of over 5.5 billion pieces from 2004. The total annual revenue was about $70 billion, with an increase of about $1 billion from 2004. Standard Mail fueled by the growth in Direct Mail and Direct Marketing exceeded 100 billion pieces for the first time, with an annual increase of over 5.4 billion new shipments from 2004.

The Standard Mail volume even exceeded the First-Class Mail volume for the first time in the history of USPS.

Market Trends buoying Direct Marketing

What are the key trends resulting in this disruptive growth of Direct Mail and Direct Marketing for USPS?

1. A strong retail market with higher annual sales and profits creates a favorable investment environment for advertising spending.
2. Increasing strength of direct marketing channels serving more businesses and the strong market demand.
3. Huge growth in credit card and home loan / mortgage marketing fueled by the growth in credit card and financial services market.
4. Seasonal increases owing to election year marketing.
5. The national "Do Not Call" telephone restrictions providing consumers the rights to deny telemarketers calling them, and its positive effect on Direct Marketing.
6. Passing of e-mail marketing legislation in most states that expressly prohibits marketers to send out email blasts to consumer lists without express permissions from the consumers, and its positive effect on Direct Marketing.
7. A physical and tangible quality inherently lacking in e-mails or online media, and its positive effect on Direct Marketing.

Have you checked your mail and your mailbox recently? Among the many direct marketing mailings you receive are unaddressed grocery circulars, sales flyers from local brand-name stores, Penny Saver booklets, ADVO coupons, "Dear Neighbor" coupon packages, pre-approved credit-card offers, home mortgage financing and re-financing offers, car dealership offers on new models and attractive financing, and more.

USPS Innovations

USPS proposes the following recommendations on initiating a Direct Mail and Direct Marketing program. Each recommendation provides a business process on how a business can build an effective program around Direct Mail:

1. Build or buy a mailing list
2. Select postcards, letters, or brochures
3. Explore design ideas
4. Create your message
5. Get tips for printing your mail piece
6. View Direct Mail payment options

USPS ® has created the following innovative services that fuel this growth in Direct Marketing:

1. Direct Marketing and Direct Mail can be targeted to specific audiences down to a zip code, address, and socio-economic profile by building a list or using the available list brokers. USPS provides **NetPost** service that “makes it easy for you (business) to create Direct Mail pieces, right from your home or office computer,” and customized **MarketMail** services that “allows you to test your creativity and send a truly dimensional mail piece of any shape or design.” Some mailing lists can be rented from a local newspaper, chamber of commerce, trade publications or specific brokers. This means a company of any size can create marketing programs of any size and scope with razor-sharp focus.

2. Direct Marketing effectiveness can be measured with the tools available from USPS for both NetPost and MarketMail services, and also tracking tools for mail services. This means that a company can finally tie down deals to the leads generated by specific Direct Marketing campaigns.

3. USPS provides a suite of online resources to businesses that are at various stages of their Direct Mail and Direct Marketing. For instance, you can not only learn the benefits of Direct Mail, and leverage the available research and white papers, but also execute marketing programs using the Tools & Resources and the USPS services.

Fusion of Direct Marketing, e-mail and the Internet

According to a whitepaper on Mail and the Internet by the USPS, "consumers, even heavy Internet users, continue to view mail as a highly relevant and significant part of their lives." The same whitepaper shows that when mail is working side by side with digital media, it can have a substantial impact on the use of commercial Web sites.

Here are some key findings on the integration of Direct Mail and Marketing into Online marketing:
* 30% more dollars are spent by multimedia shoppers (mail and email, mail and website, etc.) than single-media shoppers.
* 37% of e-commerce dollars come from catalog recipients.
* 41% of Americans shop using both catalogs and the Internet.

There are significant insights to be gained from an integrated Direct Marketing program that combines Direct Mail with E-mail and Website.

1. E-mail is a complement to mail, and when smart companies combine them together and create a cohesive marketing strategy, they "achieve high-impact results...even shake things up."
2. "Mail motivates customers to visit your stated website more often, stay longer, and spend more money while shopping." A cleverly designed mail creates the hook. Website serves to fulfill the need.
3. "Consumers rely on e-mail as a useful tool to manage their personal lives." A report released by DoubleClick.com in March 2005 found that 59% of respondents feel that “knowing and trusting the sender” is a factor in opening and reading an e-mail. Compared to the mail, consumers take less time to read Internet offers and retail messages through e-mail. Mail not only opens up a customer to a company's brand and goods, it can create an ongoing relationship with the customers.

USPS Case Studies

USPS touts case studies of Internet companies such as eBay and small businesses who used Direct Mail and Direct Marketing innovation to achieve disruptive sales results:

* "eBay created its first-ever catalog to entice readers to its online retail site. The holiday catalog was distributed to several million eBay members in November 2004, and eBay saw a dramatic climb in sales. “The catalog is the latest tactic we’re using in an integrated campaign,” said Michael Dearing, eBay general merchandising manager. “We used the print medium during the holidays to keep eBay top of mind and drive readers to our Web site.”"
* Another company, "21 CD, Inc. produced a mini CD for a North Carolina coastal resort area. Compared to prior mailings, the results were a 300% increase in reservation inquiries over the next three months. The multimedia mailer also had a 16% response rate."

* Country Supply, Inc. is a family business whose sales had grown to just under $200,000 annually. Limited to potential customers in the small town of Ottumwa, Iowa, the husband and wife pair decided to expand their business through catalog sales. They designed and printed a catalog featuring their products. In essence, they then "partnered" with the USPS ®. They economically delivered their catalog via Direct Mail. Their sales doubled within 2 years and increased by over 500% within 5 years. Country Supply now serves over 400,000 customers nationwide, with annual sales exceeding $17 million. Direct Mail made this disruptive growth a reality for Country Supply.

Bottomline

USPS enjoys a virtual monopoly in Direct Mail and Direct Marketing owing to its millions of delivery points, great quality of service (over 90% customer satisfaction) and program innovations. USPS embraced and capitalized on the e-mail and the Internet demand, which many analysts initially thought would be the beginning of an end for Direct Mail and Direct Marketing. However, USPS is uniquely positioned today to not only grow its own Direct Mail business, but also enable disruptive growth for customers who leverage its Direct Mail service for Direct Marketing. A Win-Win recipe for growth!

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Chapter 40

Disruptor Zune versus Innovator iPod

The King: Innovator iPod

iPod, Apple's best innovation, holds a commanding market share of over 70% in the MP3 players market. In the latest quarter ending September 2006, Apple sold 8.7 million new iPods, generating $1.5 billion in sales, a third of Apple's total quarterly sales. By the end of 2006, there will be over 67 million iPods in the world; Apple is poised to eclipse the 100 million iPods mark in 2007. iPod has revived Apple from the depths in 2001 when annual sales had plummeted to $5.36 billion and Apple was losing money. Apple's shares were under $10. Compare this to 2005, when Apple had sales of $13.9 billion, and profits of over $1 Billion, in large part due to iPod. Apple's shares have climbed sixteen folds since 2001. The Apple machine is kicking into high gear, in large part due to iPod Innovation Revolution. iPod's halo effect is even evident in the latest quarter when Apple sold more Macs than it has ever sold before: 1.61 million.

However, will history repeat itself?

Can a Disruptor, a Challenger named Zune, backed by the mighty conqueror Microsoft unseat the King iPod made by the maverick Apple? The market for MP3 players is in the billions of dollars and growing 20 percent annually - plenty for Microsoft to become interested in and carve out a billion dollar business. Microsoft is launching Zune on November 14, 2006.

The Challenger: Disruptor Zune

Zune is Microsoft's stab at the MP3 market - directly aimed at the mighty iPod. Apple is enjoying the throne made of music, video, movies, TV shows and games - all in one super cool package dubbed iPod. However, can it hold on to this throne for long?

Zune is a worthy challenger. It packs a good punch and some.

For starters, it is very easy to use, and it contains all the cool features of an iPod - you can play your favorite music, buy and download songs from the marketplace for about 99 cents a song (Zune marketplace is similar to iTunes store), view pictures and photos, and watch movies - all for $249 (same price as the comparable iPod).

However, Zune player packs more innovation punch:

1. Wireless Sharing: Zune is first to market wireless sharing of songs, photos and pictures using standard wireless Wi-Fi connectivity. Microsoft's creativity is evident as it is trying to capture the rising tide of social networking. Anyone with a Zune player can send and receive songs, photos and pictures with anyone else with a Zune player. The only catch: if you receive a song, you can only play it three times within three days, after which you cannot play it any more. But that's ok. Since after you have received the song, you can "tag" it if you enjoy it, and you can then buy it from the marketplace. There are no restrictions on sharing pictures or photos. And, if you don't want someone sending you stuff, you can always block that person. And one other cool feature is that you can let someone know the names of songs and videos you enjoy. Microsoft has indeed innovated with the wireless sharing, and the fact that it is standards based means it can do much more with it in the future: for instance, web browsing and GPS navigation come to mind. Innovation in technology and trends.

2. Bigger Screen: Zune boasts a full three inch screen, half-inch larger than an iPod - which is literally 44% larger. The best part is you can use both portrait and landscape mode on the Zune screen, and even change background images on the screen - this customization is handy if you want to personalize your Zune player (a page out of the iPod book; however iPod does not provide such customizations). The bright screen with the extra half-inch is a visual delight. According to Zunescene, "It's (display) large enough to watch a music video, or movie and actually see the expressions on peoples faces. The pixel density is about double that of modern laptops, so it's more like watching a mini HDTV than a mini television. The refresh rate is also higher than a television, which means the frames move extremely fast to make the motion appear fluid rather than jaggy or digitized." Innovation in product design.

3. FM Radio: The very point of owning an MP3 player was to not listen to FM radio with all the advertisements. However, there are times when you want to listen to songs without paying for it and want to keep up with the news and gossip. Zune provides a built-in FM radio which is quite effective. Listen in to late night music, or simply use it for snoozing. What is unclear is whether you can record your favorite FM songs directly to Zune player. Innovation in customer need.

4. Unlimited Download Service: Zune marketplace includes an unlimited download service for the music lovers who simply want to listen to as much music as they want for $14.99 a month. The Zune Pass provides you the freedom of an "all you can eat" buffet for a low monthly price. You can always choose to pay by the pop for about 99 cents a song. Zune has copied the unlimited business model of a Napster or Real Networks; however, the flexibility of providing both business models creates innovation in Business Model, and provides the customer real choice.

5. Zune and Xbox 360: Zune works with Xbox™ 360. You can "access media right in the Xbox dashboard, or listen to music while playing games." For all the Xbox lovers, this could be a huge blessing. Will Microsoft eventually create a bundle of Xbox and

Zune? Or provide Zune for a better price to loyal Xbox owners. The creativity in packaging together these systems could only help Microsoft further their market share of both Xbox and Zune. Creativity and Innovation in motion.

What are Zune's weaknesses?

The challenger often has one or two potent weaknesses that the king can exploit and essentially thwart the uprising. What are then Zune's weaknesses?

For instance, Zune marketplace has a confusing points system to download a song rather than paying it by the drink for 99 cents. It amounts to the same thing as spending 99 cents a song; however, the system is a bit complex. Microsoft needs to improve this and make this simpler.

Zune player is only available in English language for now. If you do not speak English or want Zune in your own language, you will need to wait. Expect Microsoft to offer Zune in multiple languages depending on the success within the next year.

Zune's hard drive "cannot be used as a memory stick for storing and retrieving word documents, zip files, and other such data." This could be an issue for many music fans who want to do more with their media storage for music. Perhaps Microsoft will tweak the Zune software in the future to accomplish this.

Zune player has limited accessories available today. Zune marketplace also has limited songs (about 2 million compared to 3 million plus for iPod). On the other hand, Apple's iPod has established relationships with several TV and Media houses which in turn provide more choice to the consumer. Whether Microsoft will be able to stretch these limits with Zune remains to be seen.

Bottomline:

Zune has the potential to cause disruption aka disruptive innovation in the market place. Zune combines the potent elements of a disruptor including great price, differentiated features and functionality, massive distribution, and Microsoft as the driver. Remember Xbox. However, the innovator iPod has a lion's share of the market, established partnerships, loyal cult-like following, and has been known to cause its own disruption. Who will win when the dust settles? How will iPod respond? For the final answer, we will check back in 2008.

2008 Update

Although second generation Zune is better, and has got good reviews, Zune has yet to make a dent in iPod’s market share, and has hardly impacted iPod’s market growth.

iPod's market growth has tapered somewhat on the other hand owing to the introduction of iPhone, another Apple product, and a maturing market for music players. Can the third generation Zune grab substantial market share from iPod? We will need to fast forward to 2010 or beyond for an answer to this.

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Chapter 41

100% Electric Ultra fast Innovation

IMAGINE this:

A **100% Electric car**.

An ultra fast car that goes **0 to 60 miles in 4 seconds flat**, with a **top speed over 130 mph**.

A car that provides **100% torque all the time** - great performance and acceleration anytime from stop to start to go.

A car that is six times as efficient as the best sports cars while producing one-tenth of the pollution.

A car that requires no stopping for **250 long miles** until you need a recharge – you can now make that trip from San Francisco to Santa Barbara.

And all this speed, power and efficiency at **135 miles per gallon**. An equivalent cost of about 1 cent per mile.

Sounds too good to be true? This must be a concept car, perhaps available in 2010 or beyond.

NOT!

Introducing **Tesla Roadster** - a great innovation and one of the 25 best inventions of 2006 according to the latest Time Magazine.

Many Innovations

Besides creating a 100% electric car that drives super fast, Tesla Roadster creates solid security and safety innovations including:

Customized PIN
Enter a unique PIN, and only then the car will start. This virtually makes it impossible to hotwire a car.

Valet Mode
How do you prevent valets from taking your car out for a ride? Tesla roadster has a Valet mode that limits the car's range, acceleration, and speed until the PIN is entered again.

Charging Intelligence
The charger is really safe, and is programmed to prevent overcharging. The charger will shut itself down if power cord is not connected correctly, undue tension on the cord, if the car detects water or smoke, or even if airbags have been deployed.

Solid Safety
Roadster includes superior tires, custom and directional wheels, tire pressure monitoring, independent tire mechanism, 4-Channel ABS system without steering lockup, extra protective side beam, roll-over protection, and charging and energy storage safety.

Creativity, Innovation and Vision

The creativity and innovation of the Tesla roadster is driven by the vision to create solutions that reduces dependence on foreign oil, resulting environmental benefits from using 100% electrical energy, energy efficiency that is even better than the Toyota Prius, the best selling hybrid, and incentives for green innovation including:
* Single-occupancy access to all carpool lanes.
* Income tax credit, although it expires in 2006.
* A luxury car that's fully exempt from the luxury car tax
* Free parking at charging stations at LAX and other airports
* No parking meter fees in an increasing number of major metropolitan areas.

But more importantly, the creativity and innovation driven by the founders - both consummate electrical and computer engineers - **Martin Eberhard** and **Marc Tarpenning**.

Here's an interesting story:

"Martin Eberhard learned to drive on a farm in Kansas when he was just 13 years old. There began a lifelong fascination with, and love of, cars and driving. So much so that Martin can still remember every car he's ever purchased, how much it cost, and how many miles were on it when he got it."

Martin and Marc have co-founded engineering companies before and successfully sold it for profits. And the founders are highly passionate about great engineering, superb customer experience, and the environment.

What are Buyers saying?

Here is what Bob Bressler, owner of Bressler Vineyards, said about his experience on owning the Tesla roadster on the Tesla Blog:

"* It is plug-in technology. The United States gets almost all of its electricity from coal, nuclear, natural gas, and hydro. This is important for three reasons. First, there is a much greater supply of the resources needed for that energy. Second, the use of oil has at least as large a political impact as an environmental one. Third, it is much easier to incorporate new technologies that can add power to the electrical grid than to develop small mobile technologies that will fit into a car.

* I can have the sports car performance I loved in my Corvette and can still pretend that I am Graham Hill.

* I can drive all the way from my home in Napa Valley, Calif., to San Francisco without thinking about fuel. (My Sparrow is legal for driving in the carpool lanes here, but there are no carpool lanes within the range of the car. With the Tesla Roadster, I'll get the carpool lane AND range.)

* I like having a car that has other people smiling and thanking me. We get more than our fair share of Ferrari and Lamborghini exotics in Napa Valley and I love parking my Sparrow next to them. When I come out of the store, are people crowded around the Ferraris? No, they are all looking at my Sparrow. More and more, people understand the importance of environmental issues.

* I can carry a passenger! Okay, I still can't carry many cases of wine, but one thing at a time.

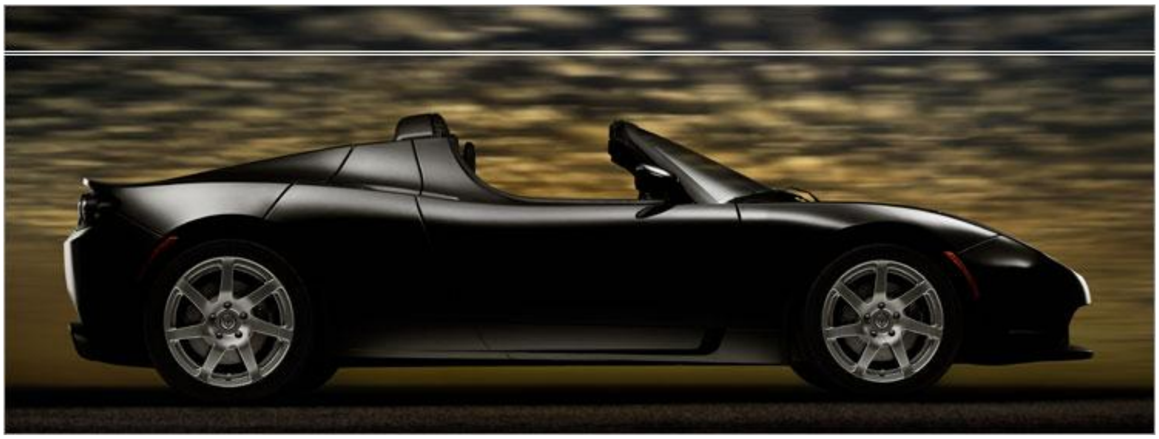
* I have battery management. With a sophisticated computer driven system, the car can give me the pertinent information I need. Good news, it is all just software. It is easy for Tesla Motors to adapt as people start using the cars and find out what they really want to know. And, as I mentioned, they have the software to do the "fuel gauge" the right way. They can measure what is going on in great detail and implement the right algorithms to

give me a simple and accurate “fuel gauge.”

* They are using Li-ion the right way – i.e., they picked the technology being manufactured in huge quantity and have invested in the software to make a battery management system that adjusts the usage of the batteries for the best life, safety, and (of course) performance."

Money, money, money

Interested in buying this too good to be true roadster? It's not available currently. All sold out. But you can reserve one for 2008. And oh, and be prepared to shell out **$100K** and change. Or wait until the company creates cars that compete against the current hybrids.



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Chapter 42

Nike versus Adidas - The Innovation Game is On

"It's hard to build an identity for your brand around a team," says Charles Denson, Nike brand president in the Wall Street Journal story. Denson asserts: "We built our brand around the athlete and his or her personality, creativity and innovation. I think that's what gives the Nike brand the edge it has today."

Do you agree?

If you are running a business, you would be quick to say: "No Way! Teams make Business happen!" We have come to accept that teamwork, team collaboration, team building, teaming, team spirit -- are essential to business success. We have been told to never use the term "I" in business.

Nike is one of the Top 20 Innovators of The Innovation Index.

The david Adidas - "We over Me" (or "We over I")

According to Wall Street Journal, Adidas is about to launch a new innovative campaign praising the Team Spirit in sports. In a new 11-year partnership with NBA, Adidas is launching a brand new campaign with the slogan: "**It takes 5IVE**" - *celebrating the concept of team over individual or "we over me".* The campaign is the brainchild of Simon Atkins, Adidas' director of marketing in the U.S.

Adidas will showcase five NBA stars together: **Tim Duncan** of the San Antonio Spurs, **Kevin Garnett** of the Minnesota Timberwolves, **Tracy McGrady** of the Houston Rockets, **Chauncey Billups** of the Detroit Pistons, and **Gilbert Arenas** of the Washington Wizards.

It's interesting to note that Adidas has picked the sort of blue-collared, hard working, good citizenship team players, and role models of the community as part of its 5IVE Team.

A TV commercial will began airing this week where the players look into the camera and say: "***It's not about them, but rather the team***." Besides the commercials, there will be print ads, online web ads, and even a new video game in collaboration with EA Sports.

Adidas will launch signature basketball shoes for all five players in the range of $80 to

$130. And to take this one step further, Adidas is also launching 30 different basketball shoes - each shoe representing special design and logo of an NBA team - for about $100 each.

The goliath Nike - "I want to be like Mike"

Nike has always been big on marketing the individual as the passport to selling basketball shoes. From the world famous **Michael Jordan** who made an empire for Nike in basketball with the Air Jordan shoes and apparel, to the new king of basketball **LeBron James** riding high on the success of Nike Zoom Lebron, it has always been about the Individual spirit, the Individual drive, the Individual personality, the I in the Individual. **Shaquille O'Neal** has also championed the growing line of Shaq by Nike.

Nike owns over 80% of the U.S.'s $2.6 Billion basketball market and its share is also growing year over year; while Adidas' share of the market is only about 14%. Adidas is growing market share. But it remains to be seen whether it will grow at the cost of Nike, or other lesser brands.

Who will win?

If this was running a business, We always wins. I always loses. But this is not just running a plain ole business.

For now, Adidas wins with the new partnership with NBA and EA Sports, creating the "team spirit" in the NBA where everything is literally about "I" and players lack camaraderie, great community message that could jive with the NBA fans, and a cool line of new shoes touting Teams and showcasing each NBA team. Even NBA wins in the process.

Adidas is definitely innovating and challenging the widely held "I" culture of NBA. And Adidas is doing this creatively. NBA has a lot to gain from this program as well.

However, when I go shopping for basketball shoes, do I really care about the "team" or "5IVE" or "We". I am out there buying a great pair of sneakers. And I am definitely thinking Jordan, Shaq, LeBron - "I want to be like Mike" when I put them shoes on and go for that layup. I am not thinking Duncan, Garnett, Arenas, McGrady, Billups - whose collective popularity is probably less than any of the Nike stars. Perhaps I am not an average shopper. Perhaps Adidas could have picked the NBA stars who are the most popular, and created a team with them. Then again, that wouldn't have been a team, would it? It would have been an "**I Team**".

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Chapter 43

People Innovation – We Think

What does Google, YouTube, Wikipedia, eBay, Craigslist and more have in common? According to Charles Leadbetter, author of the soon to be released book "**We-Think**", we are witnessing the new age of creativity and innovation that begins with people asking a simple question: "**Are you thinking of what I'm thinking?**" A new wave of companies are cropping up wherein people are creating and conducting business together, determining the rules of the business, and their "collective creativity and collaboration are replacing top-down management as a business model."

People are the creators

Leadbetter asserts that "Google's service is based on extracting insight from our collective intelligence" wherein the query engine is based on how each web page is linked by other pages on the Internet by the people - akin to a vote. YouTube is compared to Google where according to Leadbetter, "its **ethos is democratic: people can vote on what they like**." *It is the collection of people that make these new services grow.* Google and YouTube are simply enablers. **People are the creators**. In a related story on Google's acquisition of YouTube, I talked about how YouTube has created successful innovations similar to Google with regards to Vision, Business Model, Technology and User Experience and Partnerships.

Participation

Leadbetter calls this new world of doing business as the world of "We-Think", where "we (the people) are developing new ways to innovate and be creative en masse" without the need for an organization. Leadbetter provides several examples of the We-Think culture including eBay, multi-player computer games, Neopets, Second Life, Linux, Apache, MP3 revolution and more. The common theme across all of these new businesses: **participation**. This is a strategic shift in business thought - whereas most businesses think of their customers as consumers, these new businesses think of their customers as active participants and "voices in the conversation", not just passive listeners. In Co-Creation driving Innovation, I talked about mainstream businesses such as Doritos, Starwood Hotels and Timex watches embracing this phenomenon and leveraging their customers to create new products.

People Innovation

Leadbetter makes a poignant observation: "Innovation and creativity which were once elite activities undertaken by special people are now becoming mass activities, dispersed across society. **This is innovation by the masses, not just for the masses**."

Finally, Leadbetter concludes that We-Think scrambles the logic of managerial capitalism, where consumers turn out to be producers, demand breeds its own supply and leisure becomes a form of work. And this leads to the "irresistible force of collaborative mass innovation."

We think Leadbetter is on the money, and we are certainly in the midst of this "We-Think" phenomenon of People Innovation that is not only revolutionizing the way companies do business, but also the business itself.

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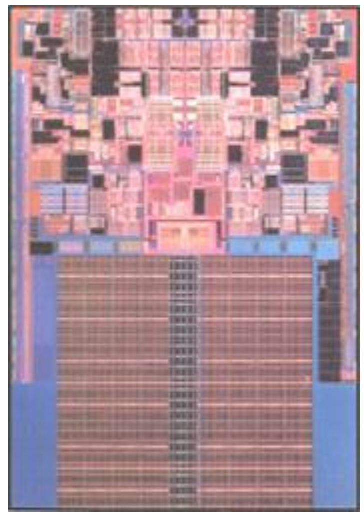
Chapter 44

Intel – Exponential Innovations

Intel Corporation (NYSE: INTC) is one of the Top 20 Innovators of The Innovation Index. Intel Corporation is **The Innovator of the week**. Intel stock is up 4% for the year (through Jan. 31) owing to better revenues and profitability in the latest quarter, and recently announced breakthrough product innovations.



Intel announced *game changing, record-setting innovation* in transistor technology last week comprising of two new materials used in making transistors: **high-k and Metal gates**. How big is this innovation? *This 45nm technology represents the biggest technological change and creativity in 40 years, extends Moore's Law into the next decade, and increases Intel's lead by more than a year over the rest of the semiconductor industry with working 45nm processors codenamed "**Penryn**".*

Background

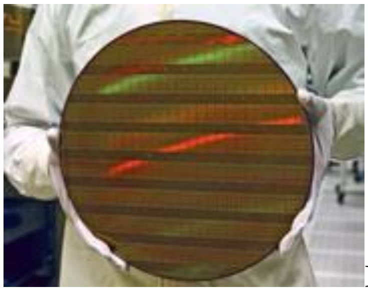
According to Moore's law, the number of transistors on a chip roughly doubles every two years - this does not just happen by itself. Intel methodically and rigorously innovates and integrates, "adding more features and computing processing cores, increasing performance, and decreasing manufacturing costs and cost per transistor." Intel creates new technology that shrinks transistors to ever-smaller sizes. However, using current materials, the ability to shrink transistors reached fundamental limits because of increased power and heat issues that develop as feature sizes reach atomic levels. Hence, Intel sought to implement new materials for this killer innovation.

Gordon Moore

Intel co-founder and creative leader Gordon Moore made a comeback and told the world: "The implementation of high-k and metal materials marks the biggest change in transistor technology since the introduction of polysilicon gate MOS transistors in the late 1960s." It should be noted that Moore has not made public statements on behalf of Intel for the past several years, especially as it alludes to transistor technology. For Moore to come out of retirement and essentially state that this is the biggest change since the late 1960s makes this innovation significant.

Disruptive Innovation

"Transistor gate leakage associated with the ever-thinning Silicon Dioxide gate dielectric is recognized by the industry as one of the most formidable technical challenges facing Moore's Law. To solve this critical issue, Intel replaced the silicon dioxide with a thicker hafnium-based high-k material in the gate dielectric, reducing leakage by more than 10 times compared to the silicon dioxide used for more than four decades.

Because the high-k gate dielectric is not compatible with today's silicon gate electrode, the second part of Intel's 45nm transistor material recipe is the development of new metal gate materials. While the specific metals that Intel uses remains secret, the company will use a combination of different metal materials for the transistor gate electrodes."

Key Product Benefits

What are the key product benefits of 45nm technology over today's 65nm technology?

- Approximately twice the transistor density (great for smaller chip sizes or increased transistor counts)
- Approximately 30 percent reduction in transistor-switching power
- Greater than 20 percent improvement in transistor-switching speed or a greater than 5 times reduction in source-drain leakage power
- Greater than 10 times reduction in transistor gate oxide leakage for lower power requirements and increased battery life
- Increased computing performance by up to 20%

Mark Bohr, Intel senior fellow states: "Meanwhile our engineers and designers have achieved a remarkable accomplishment that ensures the leadership of Intel products and innovation. Our implementation of novel high-k and metal gate transistors for our 45nm process technology will help Intel deliver even faster, more energy efficient multi-core products that build upon our successful Intel Core 2 and Xeon family of processors, and extend Moore's Law well into the next decade."

Penryn - The new Intel processors

According to Intel, the new Penryn family of processors will be based on the new process technology and new microarchitecture. The combination of Intel's leading 45nm process technology, high-volume manufacturing capabilities, and leading microarchitecture design enabled Intel to develop its first working 45nm Penryn processors.

Intel announced that there are more than 15 products based on 45nm in development across desktop, mobile, workstation and enterprise segments. With more than 400 million transistors for dual-core processors and more than 800 million for quad-core, the Penryn family of 45nm processors includes new microarchitecture features for greater performance and power management capabilities, as well as higher core speeds and up to 12 megabytes of cache. The Penryn family designs also bring approximately 50 new Intel SSE4 instructions that expand capabilities and performance for media and high-performance computing applications.

Bottomline

Intel become the world's number one microprocessor and semiconductor company decades ago, and has remained in the leadership position in the microprocessor market ever since. However, AMD has been recently disrupting Intel's market share, gaining market share and taking market share away from Intel. Can Intel stall AMD with the new Penryn and 45 nm technology? Can Intel create the new Penryn using efficient manufacturing yield and economical prices? Can Intel regain the market share from AMD and reverse the tide?

Would consumers and businesses crave for the extra power, extra performance, and better efficiencies that Penryn and the new 45 nm technology offers? This would depend heavily on the adoption of new media such as on demand video, audio, multimedia, and the transformation of the Internet and Information from static to dynamic, multimedia, compute intensive applications. As more consumers embrace YouTube, Flickr, Myspace, on demand media, images, animations, home entertainment centers powered by computers and faster processors, better operating systems such as the new Windows Vista, Apple iPod + iTunes and MP3 music and on demand video, Apple iMac computers powered by Intel processors, Dell computers, HP computers, and users all over the world purchasing computers with Intel processors – Intel is sure to benefit. One thing is certain: Intel has created a game changing innovation, and is planning to ship Penryn processors based on this innovation in the second half of 2007.

Intel is The Innovator of the week.

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Chapter 45

Five Innovations in Software Industry

Intuit is the world's largest maker of financial management and tax software. Intuit is best known for the household software brands Quicken, QuickBooks and TurboTax created for small businesses, consumers and accountants. The company's mission is to "create new ways to manage personal finances for small businesses that are so profound and simple, customers cannot imagine going back to the old way," driven by "Right for My Business" strategy.

"Inside Intuit" authors Suzanne Taylor and Kathy Schroeder elaborate on how Intuit created Innovations in the Software Industry, warded off Microsoft, and achieved sustaining market leadership.

Here are the top five Innovations that Intuit created to achieve software market leadership:

1. Customer Evangelist Culture

Intuit ensured that the new hires understood the company's Holy Grail: A Happy Customer. Customer focus, wherein Intuit makes a difference in the customers' lives, is the everyday Mantra practiced by everyone at Intuit. Practices such as interviewing and hiring the right employees who believe in customer first, postage-paid "Customer suggestions" included with every copy of software (and follow through on the suggestions), answering service and technical support calls for at least four hours each month, "Follow Me Home" research wherein marketing and engineering staff literally follow a customer home and watch them install and use the software, database to track continuous customer feedback, customer advisory panel consisting of loyal customers providing feedback on new products, features and quality, and focus groups to conduct market research on how customers buy and use software (to manage money and finances).

These are just few of the Innovative mechanisms that Intuit installed to create an Industry first Customer Evangelist Culture that resulted in tremendous customer loyalty and market share growth.

2. Customer-Intuitive Design

By talking directly to prospective and ultimately current customers, Intuit founders and product managers built a deep understanding of exactly what the customer needs and pain points were. This led to defining software products to solve these fundamental customer needs. Whereas most software makers before Intuit were focused on creating "complex" software with an elaborate set of features that customers hardly ever used (and were confused), Intuit created new innovations in software design by creating software that a customer really cared for, and can benefit from on an everyday basis. Intuit engineers and product managers will go at lengths to understand the customer's mindset - from buying, to installing to using software, and becoming a loyal customer.

3. Customer-driven Marketing and Product Management

Most of the Software Industry before Intuit saw Marketing's role as marketing communications and brand marketing. However, Intuit realized early on that the marketing department must contribute as the company develops new products. And the role of Product managers was born wherein the Product Managers act as product business managers, oversaw income statements and all aspects of building the business. According to Scott Cook, the co-founder of Intuit, product managers must act as "champions of their products, embodying the voice of the customer not just for product development and marketing communications, but also for technical support, and overseeing the critical feedback loop between technical support and product development." Marketing also assisted the "Product Launch", wherein besides managing advertising, public relations and upgrade mailings, Marketing also created internal launch readiness, trained technical support and customer service, and created financial forecasts for the sales volumes for operations and planning.

4. Direct Marketing and Retailing

Although other software makers had tried direct marketing before, Intuit placed a big bet in their early days and want all out on their Direct Marketing campaign: "End Financial Hassles. $49.95" The Direct Marketing campaign targeted ads in three major magazines, slashed the price of Quicken in half, provided no copy protection, and was tied to wholesale distribution - all firsts for a software company. This resulted in huge sales and sustained the growth of Intuit. Intuit introduced "National Sales Tour" wherein employees visit the retailers and retailers' customers. This mitigated channel conflicts, brought employees closer to retailers and the customers, and created greater awareness of customer's buying habits - or as Cook put it, an all important "sense of the merchant." Intuit would expand Direct Marketing into Radio and then Television, and managed its two-pronged sales strategy of retail distribution and direct to expand the market share and leadership.

5. The Process driving Innovation

Intuit that went through several ups and downs from late nineties through early 2000, eventually began focusing on the "process and culture together to drive results" under the leadership of new CEO Steve Bennett (who came from GE). According to Bennett, "Bringing some of the big company process to small company customer innovation is our biggest challenge. Innovation isn't just about ideas, because ideas without operational rigor just fall apart." Bennett established rigor throughout the company, focusing the company on the "critical few" drivers and issues. Bennett also established Six Sigma mechanisms to achieve "Process Excellence" in various company processes. For example, the customer service team reduced customer wait times by 40%, and another product team reported 70% reduction in bugs due to Six Sigma processes.

Today Intuit does over $2 Billion in annual software sales, is profitable, has a market cap of over $11 billion, and annual double-digit sales growth.

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Chapter 46

Google versus Microsoft - the enterprise battle heats up!

Google (NASDAQ: GOOG) today introduced new innovation with the Business version of Google Apps - Google Apps Premier Edition in direct competition to Microsoft's Enterprise applications.

Google is one of the top 20 Innovators of The Innovation Index.

Google Apps Premier Edition is available for a yearly subscription of **$50 per user account per year**.

Google Apps Premier Edition communication and collaboration suite includes the following **Top Ten Features**:

1. Google Gmail webmail services including Gmail for Blackberry
2. Google Calendar shared calendaring services
3. Google Talk instant messaging and voice-over-ip
4. Start Page branded and customized to company domain (e.g. companyname.googleapp.com)
5. Google Docs & Spreadsheets
6. 24 x 7 Phone support for critical issues - extended business hours support
7. **10 GB** storage per user
8. New set of administration and business integration capabilities - Application-level control and APIs for business process adaptation, policies, data migration, user provisioning, single sign-on, and mail gateways
9. **99.9% uptime** - SLAs (service level agreements) for monitoring and credits
10. French, Italian, German, Spanish, Chinese, Japanese and Korean language versions (possibly more)

Importantly, Google Apps Premier Edition builds on the **success of 100,000 small businesses** and universities using the free Google Apps Standard Edition and Google Apps Education Edition introduced in 2006.

Proctor & Gamble (NYSE: PG) and General Electric (NYSE: GE) are also two of the top 20 Innovators of The Innovation Index. Both P&G and GE applauded the new Google Apps Premier Edition.

P&G statement:

"Procter & Gamble Global Business Services (GBS) has **enrolled as a charter**

enterprise customer of Google Apps, a successful consumer product suite now available to enterprises. P&G will work closely with Google in shaping enterprise characteristics and requirements for these popular tools," said Laurie Heltsley, director Procter & Gamble Global Business Services.

GE statement:

"So much of business now relies on people being able to communicate and collaborate effectively," said Gregory Simpson, CTO for General Electric Company. "**GE is interested in evaluating Google Apps** for the easy access it provides to a suite of web applications, and the way these applications can help people work together. Given its consumer experience, Google has a natural advantage in understanding how people interact together over the web."

Google also has the backing and adoption of smaller yet critical businesses such as San Francisco Bay Pediatrics.

San Francisco Bay Pediatrics:

"When it comes to our email systems, our doctors don't have the time or the budgets to deal with managing technology or defending against spam," said Andrew Johnson, chief information officer, San Francisco Bay Pediatrics. "With Google Apps Premier Edition we don't have to worry about downloading the latest spam filters or navigating unwieldy servers. This is where we let Google do what it does best, so we can do what we do best – help our patients."

Finally, Google made **a very important announcement** which was embedded towards the later paragraphs of the Press Release:

"other early adopters of Google Apps Premier Edition include **Salesforce.com** and Prudential Preferred Properties in the U.S., as well as Essilor and Mediametrie in France. "

Google is **touting Salesforce.com** as an early adopter.

Could this be the beginning of an early indicator that ***Google will go on to buy Salesforce.com***?

Does Microsoft Live or Microsoft Business Services division have an answer for Google? Can Google find many distribution and enterprise partners such as **Avaya and Postini** to support, integrate and service Google Apps Premier Edition in the enterprise? For now, Google is knocking at the enterprise doors, and if Google is able to obtain early adopters such as GE and couple of other larger Fortune 500 corporations, Google will generate the kind of momentum where major enterprise customers will be compelled to take a look at Google Apps Premier Edition and evaluate at the price point of $50 per user account per year.

New Revenue Opportunity

With the introduction of Google Apps Premier Edition, Google has the opportunity to create new market share, and grab market share from Microsoft Office and Email applications. Google Apps Standard and Education Edition has 100,000 business customers today; at an average of 10 users per customer, this translates to 1 million end users potentially using Google Apps today. Google Apps was introduced in 2006. Thus, in about 1 year, Google Apps has an end user population of 1 million potential users. If Google Apps Premier Edition can attract 100,000 new businesses in one year, or 1 million end users, this will translate into new revenue opportunity of $50 million per year. However, knowing Google, and with the tremendous marketing muscle it exerts at Google.com, the goal is possibly much higher: 10 million end users or $500 million in annual revenue. Where will these customers come from? From new market growth and a sizable number from Microsoft. If Google goes on to buy Salesforce.com and introduces Google Apps integrated with Salesforce.com CRM applications, the vision of $500 million in annual revenue is within reach. In five years or less, Google has the potential to create a $1 billion business for Google Apps Premier Edition. Disruptive innovation in motion.

Google versus Microsoft - the enterprise battle heats up!

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http://www.google.com/intl/en/press/pressrel/google_apps.html

Chapter 47

Launch of Tata Nano marks a Watershed Moment in Indian Auto Industry

Tata Motors launched Nano, a $2,200 family car with four doors, 35 horse power engine, top speed of just over 65 miles per hour, mileage of just over 55 miles per gallon, a single windshield wiper, manual transmission, 10 feet in length, and 5 feet width - with room for four. This marks a watershed moment for India and Indian automobiles. Tata Group is a top ten innovative company in the world according to 2008 BusinessWeek - BCG annual report.

Tata Nano, "the mini-car is the brainchild of one of India's top industrialists, Ratan Tata, who had a dream to move millions of Indian families off their two-wheelers and into a safer, all-weather alternative.

Many auto experts here have likened the Nano to the Henry Ford Model T that revolutionized American life a century ago. The down payment for a Nano is about $70."

"I made a promise and I kept that promise," **Ratan Tata,** chairman of Tata Motors, said at a glitzy launch party Monday, March 23, 2009. "I dedicate this car to the youth of India who designed it and will use it to transport their families. **It shows that nothing is really impossible if you set your mind to it.**"

Tata Nano is an amazing innovation, perhaps the best automobile innovation of 2009. To pack an entire car for such a rock bottom price is next to impossible for any car company in today's marketplace. Tata has started something that will overhaul the small car industry. If Tata Nano is a wild success, if the owners love the new car, if the car lives up not only to its looks but also on important metrics such as safety, ride, handling, fuel economy, and quality, and if Tata is able to create the Nanos in hordes to satisfy the appetite and dreams of the Indian buyers - well, we may be witnessing the beginning of at least a $1 billion enterprise in the making.

Congratulations Mr. Tata! You are a true innovator, and you have just shown the world that India can create disruptive innovations in auto industry.

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Tata Motors website, AP, Reuters

Chapter 48

How can GM turnaround the business? Is Innovation the answer?

General Motors - GM - was ranked a top 20 innovative company in the world according to the BCG - Business Week 2008 survey. In early 2008, everyone was bullish about GM's future. However, in just over a year since this review was published, the big question on everyone's mind today is: "Can GM survive?" If you answer this question with YEA, then you ask the next question: "How can GM turnaround?" General Motors is really close to going bankrupt. Were it not for the federal loan in late 2008 to the tune of a whopping $13.4 billion, GM would have bellied up by now.

And to make matters worse, GM made this announcement on Friday, March 13:

General Motors Corporation Recalls More Than 276,000 Vehicles For Gear Fix

"Reuters reported that General Motors Corporation is recalling 276,729 passenger vehicles to correct a problem in certain cars that could cause them to roll when parked, the U.S. government said. The National Highway Traffic Safety Administration (NHTSA) said in a recall notice that a suspected flaw in the transmission cable system may not allow gears to fully engage when the vehicle shifter shows the driver that car is in 'park.' The vehicle could roll away after the driver has exited, NHTSA said in its notice. The 2009 Models affected include the Chevrolet Cobalt, HHR, Malibu, Traverse and the GMC Acadia, Pontiac G5, G6 and the Saturn Aura and Outlook."

On a positive note, GM reported 127,296 Deliveries In February. Is that positive?

- ***Chevrolet retail cars continue to gain share, led by Malibu's 33 percent retail sales gain compared with last year***
- ***Chevrolet Traverse, GMC Acadia, Buick Enclave and Saturn Outlook drive mid-utility crossover retail sales up 35 percent, share up 10 percentage points, compared with a year ago***
- ***GMAC retail penetration increased dramatically to more than 30 percent of sales in February; Credit Union-financed sales now about 10 percent of total***

"General Motors dealers in the United States delivered 127,296 vehicles in February, **down 52.9 percent** compared with a year ago, driven by a 75 percent reduction in fleet sales." On surface, this is a recipe for bankruptcy! When sales go down more than 50% year over year, you better have enough cash to survive, or get ready for a fire sale.

But there is a positive - a faint light at the end of the tunnel: "GM's car sales compared with January were up nearly 23 percent, and crossover sales increased 6 percent, as financing availability continued to improve and slightly more fleet orders were able to be filled."

The biggest problem facing GM today though is: **The Cash Burn**. GM's operating costs are very high, and unless GM finds a meaningful way to bring these costs down, it will need another cash infusion from the government - very soon! Or file for bankruptcy, and push the time-table for turnaround back by a few years. Or, GM has to find new ways to sell lots of cars at very high profits - but in this recession and tough economy, this may be a very steep uphill climb. So, we go back to the central question: What can GM do in order to survive in 2009, and then plan forward for a possible turnaround in 2010 and beyond?

First things First: A matter of survival

In order to survive 2009, GM must first clean out the closet!

Let's say, as a dual-income working family, you are planning your monthly budget:
Husband's salary = 47.5% of total
+ Wife's salary = 47.5% of total
+ Interest income from savings = 5% of total

Total Income = 100%

Your Total Expenses are typically divided into Fixed, Discretionary and Unplanned Expenses.

Fixed Expenses would include home mortgages or home rentals, car payments, insurance, utilities, groceries, taxes, gas, etc.
Discretionary expenses would include shopping, eating out, travelling, movies, education, buying a new car, etc.
Unplanned expenses would include emergencies, healthcare, legal, something breaks down, etc.

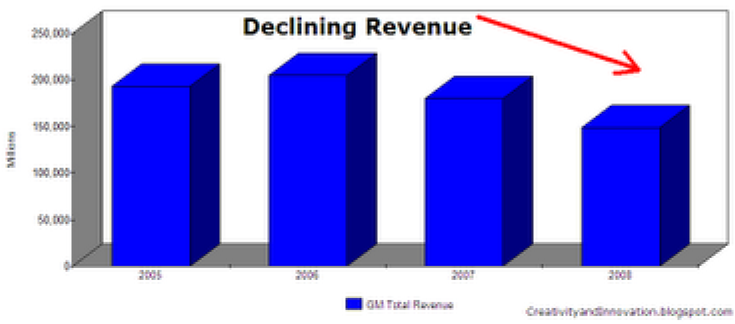
In general Total Income should be at least equal to Total Expenses for you to live comfortably. It is recommended though that Total Income should be at least 20% higher than Total Expenses for you to save for the future, and build out a nest egg. In tough economic times such as what we are facing today, families reduce their Discretionary Expenses considerably including buying a new car to alleviate for a lost or reduced salary (or fear of losing a job), and hope that they do not get burdened by Unplanned expenses.

What does this have to do with GM?

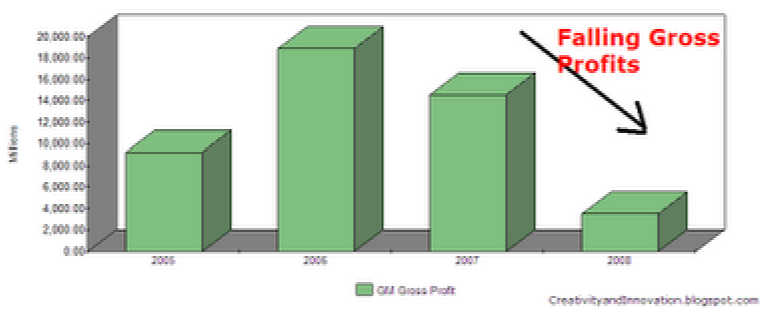
In the case of GM, on the one hand, it is losing revenue (salary) owing to reduced sales of its automobiles by more than 50% year over year (in part, due to reduced Discretionary Expenses by consumers, in large part due to non-competitive product mix), but it is also suffering from high fixed costs (expenses) owing to very large manufacturing workforce, higher pension and union costs, and many non-performing divisions.

Let us look under the hood ->

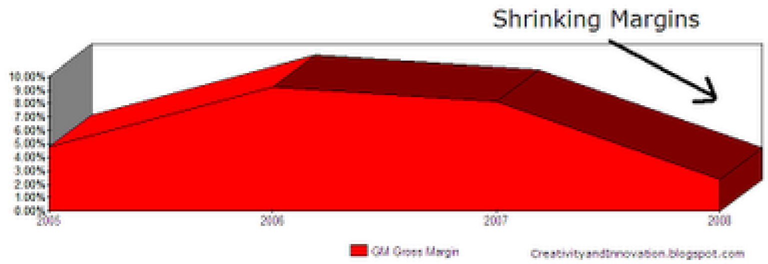
GM Revenue has been declining rapidly since reaching a peak in 2006. From over $200 billion in 2006, total sales are down to under $150 billion in 2008. A decline of over 25% in total revenue. And 2009 promises a potential 50% decline from 2008 revenue (unless we see some turnaround in second half), so this could mean total revenue in the neighborhood of $75 billion for all of 2009.



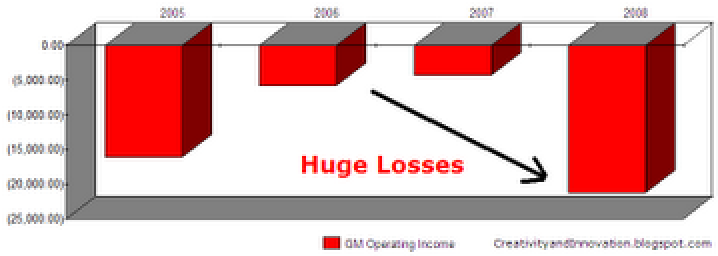
GM Gross Profits have been been falling even faster since 2006. The slide in Gross Profits is even steeper than the fall in revenue, and this shows management misdirection. While the revenue was falling, GM management did not take adequate measures in 2007 to reduce the operating costs. And the climbing operating costs suddenly became a huge burden in 2008.



GM Gross Margins are in low single digits, and shrinking further. This is another way to look at how well GM is operating - or Not! Lower sales and higher operating costs are a recipe for huge losses! And this is exactly what happened at GM. The margins were constantly pressured not only due to lower sales and high operating costs, but also owing to increased competition on key market segments, and forced reduction in prices on major GM brands.



Resulting in huge operating losses for GM in 2008. Losses are accelerating further in 2009 owing to higher operating costs (GM has still kept many of the plants open), non-performing assets, higher salaries and retirement provisions, 50% reduction in sales, increased competition from brands with superior, innovative products, and lack of innovative products launching in 2009.

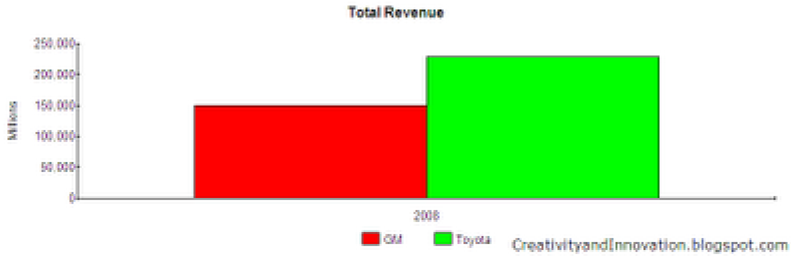


How can GM turnaround in 2010 and beyond?

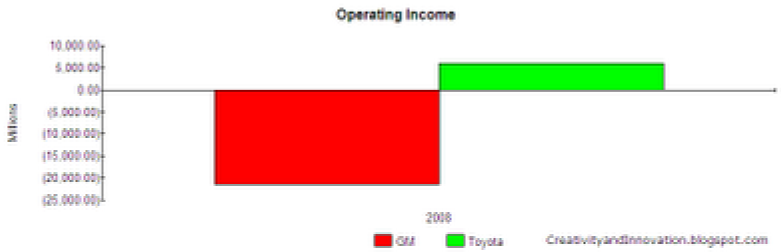
If GM were to survive 2009 (most possibly with another government aid), GM first has to cut back massively - every non-performing division, every loss-making operation has to be cut. These are hard decisions. But there is no reason to continue making automobiles that lose money even before they are shipped! GM knows today what cars make money, and what cars don't. Start with every car that does not make money, and scale back everything with that car. This also means that for the cars that are making money today, it may make sense to invest further in these initiatives. This should give GM some breathing room in 2009.

Next, GM must innovate! GM has to go back to the drawing board. After all, this is the company that made automobiles mainstream using the assembly line. Incidentally, Toyota surpassed GM as the world's largest maker of automobiles in 2008. Toyota is facing major challenges as well owing to the current economy, and may post its first annual loss in over 50 years in 2009. Just look at how GM compares versus Toyota in

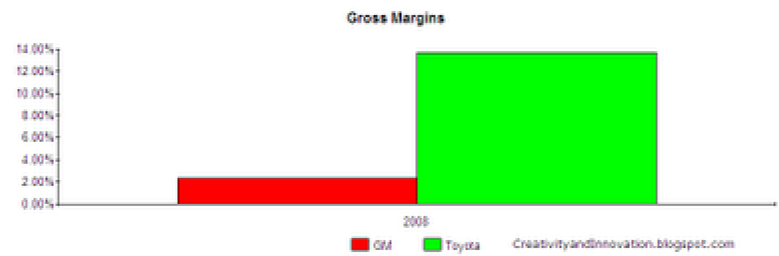
2008.



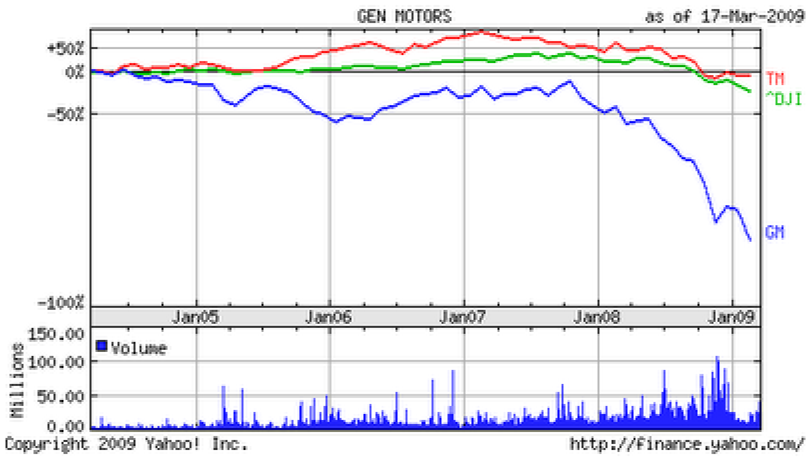
However, Toyota's total revenue exceeded GM's by about 50% in calendar year 2008.



And Toyota remained profitable in calendar year 2008 as well, albeit considerably less than its 2007 profits.



But the key difference is Gross Margins - Toyota maintained double-digit gross margins in all of 2008. This is huge considering that GM's gross margins shrunk to low single digits, while Toyota had closer to 14%. This means Toyota runs it operations with considerably less expense than does GM. Call it Toyota's operational and innovation excellence, or GM's management hibernation, Toyota delivered vehicles that mattered to consumers. And consumers bought a lot of hybrids in all of 2007 and 2008.



Finally, GM's return on equity investment (stock performance) vis-a-vis Dow Jones (of which GM is a component) and Toyota Motors is terrible.

GM's Turnaround Plan

If GM were to turnaround its business in 2010 and beyond, it has to be grounded on business innovation. Open innovation driven by excellence in products, creativity in design, change in business model and streamlined operations. Process Innovation driven by change and leadership.

GM gave up the leadership position it once enjoyed to the likes of Toyota, Honda, BMW, Nissan, Volkswagen, Ford, Tata, and even Hyundai. How does GM become a leader again? It is going to be hard for GM to be many things to many people in 2010 and beyond. It simply does not have the fire power to create so many products. So, GM must compete on its own turf in specific markets. GM must first take the markets where it is profiting today. If Chevrolet Malibu is performing well, GM must go all out, and conquer this segment of the market outright. Easier said than done, but GM must out-market the competition in this segment, and do so profitably. A fine line indeed.

GM must find similar brands that are winning with today's consumer. What are these car brands? And GM must invest smartly in these brands. This is where GM has to invest for the future. GM must not focus on hitting a home run with the Chevy Volt in 2010 and beyond. What if GM fails in this venture? Chevy Volt cannot be the "save all" of GM strategy. Rather, GM must innovate with the brands that are making money today, and invest in a meaningful manner with these brands. GM knows it is very hard to build a brand, and much harder to create winning models. As for divesting brands, now is the time. Every non-profitable brand must go. This could mean closing down operations outright for all loss making divisions.

GM must make products that matter to today's consumer. This means taking a page out of Apple's innovation strategy: Make cool cutting-edge advanced technology products that sticks, create the cool marketing and cool brand that resonates with young buyers, provide excellent customer service and experience that matters, capture the emerging landscape of demand and trends such as hybrids and alternative energy, and execute! GM has to capture the imagination of the young buyer in the twenties and thirties. GM has to be appealing and sexy to these buyers. GM has to become a brand that is fresh and modern.

GM Dealership Experience

I visited the local Power Chevrolet GM dealership in Irvine, Orange County along with my son to check out the latest Chevy Malibu. Whereas the car salesman was great to talk with, and eventually helped us with a test drive of the Chevy Malibu LT2 (in between, he began helping a new customer), the manager of the dealership was not as friendly. I wanted to test drive the Chevy Malibu LTZ that had full leather seating and offered the highest performance. However, this particular Chevy LTZ was located inside the showroom. The car salesman asked the manager to check if he can take the car out of the showroom for me to test drive. To which, the manager replied: "Why don't you find something similar from the lot outside?" And there was not any LTZ in the lot. So, I ended up driving the LT2 instead. LT2 is no LTZ. I did enjoy the spacious interior, and the LT2 gave a spirited ride. The acceleration was spotty, and the engine sound was noticeable as I stepped on the pedal. The car was also running on empty gas, so I had to cut short the test drive. I think Chevy Malibu offers a good value, and I am going to hold my judgment until I test drive the LTZ (hopefully, second time will be a charm).

Where would be GM in 2011 and beyond? I for one will be watching as GM's management tries to steer it out of a shipwreck for a safe landing.

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GM Press Releases, Yahoo Finance, Google Finance, Toyota Press Releases, Reuters

Chapter 49

Is DoubleClick a Smart Buy for Google?

Google Inc. (NASDAQ: GOOG) purchased DoubleClick for $3.1 billion in cash from San Francisco-based private equity firm Hellman & Friedman along with JMI Equity and management. Google is one of the Top 20 Innovators of The Innovation Index.

According to Google Press Release

"The combination of Google and DoubleClick will offer superior tools for targeting, serving and analyzing online ads of all types, significantly benefiting customers and consumers:

-For users, the combined company will deliver an improved experience on the web, by increasing the relevancy and the quality of the ads they see.
-For online publishers, the combination provides access to new advertisers, which creates a powerful opportunity to monetize their inventory more efficiently.
-For agencies and advertisers, Google and DoubleClick will provide an easy and efficient way to manage both search and display ads in one place. They will be able to optimize their ad spending across different online media using a common set of metrics."

According to Marketwatch story, "DoubleClick had been the subject of speculation about a possible acquisition. In late March, the Wall Street Journal reported that DoubleClick's owners were entertaining offers in the range of $2 billion from a handful of companies, including Microsoft."

Why would Google pay such a steep price for DoubleClick when DoubleClick was having revenue of only about $150 million in all of 2006 and was unprofitable as of April 2005? The acquisition puts DoubleClick's valuation at an astonishing and unheard of 20.66 times gross revenue. In comparison, Google's valuation is 13.7 times 2006 gross revenue. At 13.7 times gross revenue, DoubleClick would have been worth just over $2 billion. Compare this to recent acquisition of WebEx Communications (NASDAQ: WEBX) by Cisco Systems, Inc. (NASDAQ: CSCO) worth $3.2 billion, or 8.4 times 2006 gross revenue. The acquisition also puts tremendous pressure on Google's cash reserves that will deplete from $3.54 billion as of Dec. 31, 2006 to only $440 million. This means Google will not be able to invest freely in people and resources during all of 2007 and possibly 2008, until it rebuilds the cash reserve.

When Google CEO Eric Schmidt was asked about the large price being paid for DoubleClick in the conference call, Schmidt stated: "Google's board of directors felt after a detailed financial analysis (that) it's a very good deal for Google and our shareholders."

Bottomline:

Simply put, DoubleClick's innovative technology and ad platform provides Google an ability to provide display ads from agencies and advertisers. DoubleClick provides a ready-made platform, advertisers and agencies, publishers and relationships that have taken over ten years to build. However, some of these relationships could churn after Google completes the acquisition (case in point, YouTube acquisition and Viacom).

With Google's muscle power and market leading AdWords and AdSense platform though, DoubleClick business will see an incremental growth of possibly 50% to 100% year-over-year in the near future. At least this would be the expectation from Google Board.

This means, Google will see potential incremental revenue of $225 million to $300 million in 2008, $390 million to $520 million in 2009, and $675 million to $900 million in 2010 - so in essence, Google is paying about four times optimistic 2010 potential revenues through DoubleClick acquisition. Is Google being a bit carefree with the cash and money in the bank it has generated with the core business? Or is Google being bold and bullish by staking a key position in online display ad business? Should Yahoo! worry even more about Google? Why wouldn't Microsoft, AOL or Yahoo! pay $3.1 billion for DoubleClick, much less even $2 billion? It appears that a bidding war ensued between Microsoft and Google, and Google rolled the dice and placed a huge bet - perhaps Google did not want to come second in this particular bidding game. Microsoft could have benefited more from the acquisition. However, Microsoft must have found the price tag a bit too much to swallow, and decided to bow out.

On the other hand, DoubleClick acquisition is much closer to the core online Ad business that has made Google. It provides Google a real play against Yahoo!. And Google has the potential to further its marketshare in search advertising through inroads in display advertising. It also means that Google couldn't build out a display ad platform to rival Yahoo! within a given time and budget, and hence chose the acquisition route. Only time will tell on whether Google's lofty acquisition of DoubleClick for $3.1 billion is a Smart Buy. For now, the Google investors could be wary with all the questions, and may prefer a "wait-and-watch" mode until the dust settles. On the other hand, DoubleClick investors are having a big ball.

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Chapter 50

Microsoft Hits A Walk-off Home Run with AQuantive acquisition

Microsoft Corp. (NASDAQ: MSFT) waited until the ninth inning and two outs to deliver the walk-off game-winning home run with AQuantive Acquisition (NASDAQ: AQNT). Microsoft is one of the top 20 innovators of The Innovation Index. And Microsoft delivered the home run in style: the home run did not just clear the field, the platforms and the bleachers -- it cleared the entire stadium. The home run hit was worth $6 billion!! And for AQuantive investors, a mouthwatering $66.50 a pop - all cash (no credit). Importantly, the offer was 85 percent higher than AQuantive's closing price of May 17, and 29 times the Seattle-based company's anticipated 2008 earnings.

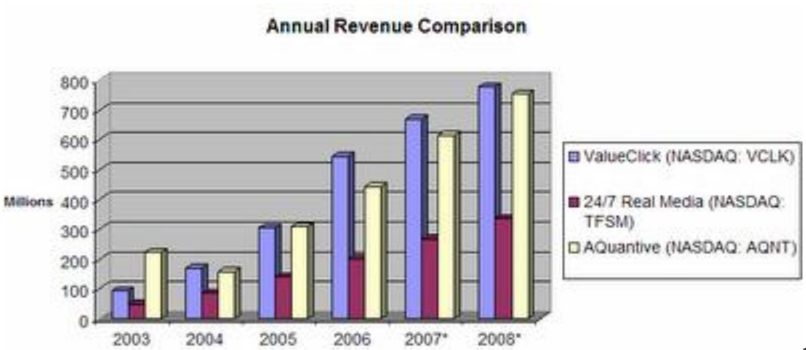
This is by far Microsoft's biggest acquisition, easily eclipsing the previous acquisition by over $4 billion and a lot of change.

Web Advertising companies are getting plucked up in a hurry. This is the fourth Web ad acquisition since April 13, when Google announced the DoubleClick deal for $3.1 billion. WPP Group Plc agreed to buy 24/7 Real Media Inc. (NASDAQ: TFSM) for $649 million. Yahoo agreed last month to buy 80 percent of Right Media that it doesn't already own for $680 million. Why would Microsoft cough up $6 billion when it did not want to pay $3.1 billion for DoubleClick? Was DoubleClick a smart buy for Google? The multiple based on earnings before interest, taxes, depreciation and amortization that Microsoft is paying is almost double what WPP will pay for 24/7, Wachovia Capital Markets analyst John Janedis said in a note. AQuantive is more profitable and has a larger share of the market than 24/7, and growing faster than ValueClick Inc. (NASDAQ: VCLK).

Comparison between AQuantive, 24/7 Real Media and ValueClick

AQuantive is by far the largest company in revenue and revenue growth (estimated) in comparison to DoubleClick ($150 million 2006 estimated revenue), 24/7 Media, and Right Media($75 million to $100 million 2006 estimated revenue). AQuantive is poised to grow faster than ValueClick, and is increasing the marketshare over 24/7. AQuantive is smaller than ValueClick in absolute revenue, although has produced consistent Quarterly revenue growth in the last few quarters. For instance, in the latest quarter, AQuantive was the only company that grew over previous quarter's results. Both 24/7 and ValueClick's revenue declined from previous quarter.

Annual Revenue comparison



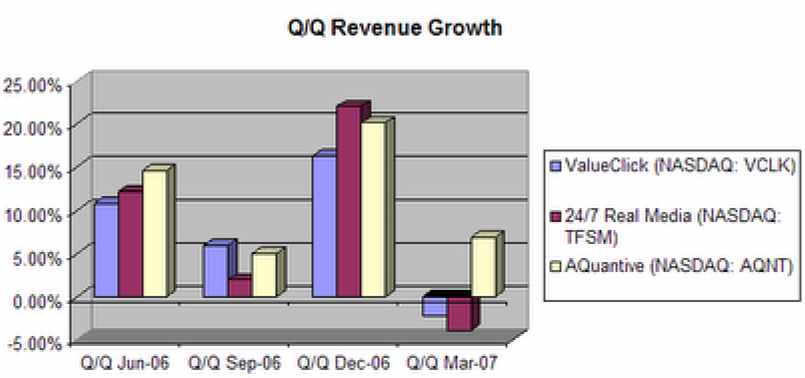
Although ValueClick's annual revenue is higher than AQuantive's revenue, AQuantive is estimated to grow faster and almost equal ValueClick's revenue by 2008.

Quarterly Revenue Comparison

Again, ValueClick's quarterly revenue is higher today than that of AQuantive's.

Quarter over Quarter Revenue Growth Comparison

This is where AQuantive really shines. It is by far showing a more consistent quarter over quarter revenue growth compared to ValueClick and 24/7.



Microsoft beat out other bidders for AQuantive, Chief Financial Officer Chris Liddell said on a conference call.

"This deal takes our ad business to a new level," said Kevin Johnson, president of the Microsoft unit responsible for online services, in an interview. "We're committed to increasing our slice of the $40 billion worldwide Internet ad market."

Microsoft has major catching up to do in the ad sales market. According to Bloomberg story, Microsoft's ad sales grew 23 percent last quarter, less than Google's 66 percent. Microsoft had $1.61 billion in ad sales in 2006, less than the $10.6 billion for Google, said Charles Di Bona at Sanford C. Bernstein & Co.

Google dominates the market for ads linked to search results by handling 48.3 percent of Web searches. Microsoft won 10.9 percent of U.S. searches in March, said Reston, Virginia-based ComScore Inc., which tracks Web use.

>>Because Microsoft trails in search ads, the company is trying to attack by convincing advertisers to focus to broader graphical ad campaigns across multiple types of media. *AQuantive, with about 2,600 employees, will help Microsoft garner more ad revenue from its MSN Web sites as well as newer areas for advertising such as the video-games, Internet Protocol television and Internet-based Office programs, Johnson said.*<<

According to Microsoft:"This deal expands upon the Company's previously outlined vision to provide the advertising industry with a world class, Internet-wide advertising platform, as well as a set of tools and services that help its constituents generate the highest possible return on their advertising investments."

"The advertising industry is evolving and growing at an incredible pace, moving increasingly toward online and IP-served platforms, which dramatically increases the importance of software for this industry," said Steve Ballmer, chief executive officer of Microsoft. "Today's announcement represents the next step in the evolution of our ad network from our initial investment in MSN(R), to the broader Microsoft network including Xbox Live, Windows Live and Office Live, and now to the full capacity of the Internet. Microsoft is intensely committed to creating a thriving advertising business and to partnering closely with all key constituencies in this industry to help maximize the digital advertising opportunity for all."

According to Microsoft, the aQuantive acquisition enables Microsoft to strengthen relationships with advertisers, agencies and publishers by enhancing the Company's world- class advertising platforms and services beyond its current capabilities to serve MSN.

What is the new value generation?:

* *Advertisers and ad agencies will benefit from a world-class media planning, buying and campaign management solution to drive maximum ROI and optimize their reach to audiences across the increasingly fragmented, interactive media landscape.*

* Media owners/publishers will gain access to best-in-class inventory optimization and monetization solutions across a full suite of rich media, video and targeting capabilities.

* The broader advertising ecosystem will benefit from the leading interactive advertising agency, Avenue A Razorfish, continuing to serve its impressive client roster, while also embedding the voice of the marketer into Microsoft's next generation advertising solutions and services.

AQuantive brings three key innovation properties to the table:

* Atlas provides a set of advanced tools for both advertisers and publishers.

* DRIVEpm provides services to publishers and advertisers that match advertiser campaigns with publisher inventory enabling all parties to maximize ROI.

* Avenue A Razorfish is one of the largest interactive ad agencies in the world, providing advertisers with industry-leading digita marketing consultation, media planning and buying, and creative services that help advertisers use the online channel to build meaningful, profitable relationships with their customers.

Bottomline:

Better late than never. Microsoft waited to buy the best available digital marketing company in the present market. Perhaps Microsoft was smart to pass up DoubleClick.

AQuantive is a great buy for Microsoft because it:

1. Provides instant global credibility in the ad business with the three key properties; in particular Avenue A Razorfish.

2. Is Located a stone's throw away from Microsoft. Hence, the integration and collaboration will work like clockwork.

3. Catapults MSN business across various properties, provides MSN the shot in the arm that was needed to wake up and possibly have a go at Google Inc. (NASDAQ: GOOG).

References:
Microsoft Press
Bloomberg

Chapter 51

IBM's $5 billion Cognos acquisition

IBM (NYSE: IBM) is one of the Top 20 Innovators of The Innovation Index. IBM made several key announcements today regarding the completion of $5 billion Cognos acquisition:

An array of new and enhanced joint IBM-Cognos solutions, products and services from across the company that enable organizations of all sizes to gain better insights from their data, improve decision-making, and optimize business performance, including:

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--  10 new and enhanced IBM solutions for banking, retail, healthcare,
government, life sciences and manufacturing industries.
--  Six pre-integrated IBM-Cognos product offerings that enable
companies
to use business intelligence to improve overall business performance.
--  Information on Demand Infrastructure Services to help clients plan,
design and deploy a resilient enterprise data, storage and content
management environment.
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IBM also announced a new capability called IBM Dashboard Accelerator software using Cognos "builder" that will help companies extract business data and present it in new, different and more meaningful contexts through their IBM WebSphere Portal applications.

Further, IBM re-iterated the importance of Cognos acquisition on Future Earnings per Share growth. The acquisition supports IBM's objective for earnings-per-share growth through 2010.

In a letter to IBM business partners, Ambuj Goyal, General Manager of Information Management Software, wrote:

"I am very pleased to announce that IBM has completed the acquisition of Cognos. Cognos will be integrated into the IBM Software Group as part of the Information Management division where the synergies and market messages are most closely aligned. The addition of Cognos complements IBM Information On Demand by **unlocking the business value of information for competitive advantage**, and further builds on leadership by IBM in delivering SOA solutions.

I am very excited about the opportunities that lie ahead for the combined IBM and Cognos organization. With our collective strengths, we look forward to **accelerating innovation, creating value, and driving business success**.

Cognos maintains a vibrant and growing Business Partner community, with deep skills, industry knowledge, and a roster of proven, scaleable solutions built on the Cognos technology. The Cognos product portfolio will continue to deliver significant value to IBM and our customers..."

Bottomline:

IBM spent five times Cognos annual revenue of about $1 billion to acquire Cognos at $5 billion. Without counting the integration, distribution and operational efficiencies that IBM provides, the Cognos acquisition will add at least $1 billion in additional revenue in 2008. Add to this $1 billion, the actual benefits that an IBM acquisition will provide Cognos customers, joint IBM and Cognos customers, and future customers of Information On Demand solutions. IBM has quite possibly found the diamond that could potentially generate $2 billion to $4 billion in additional revenue in the next three to five years if the global market for on demand information expands. Cognos could be perhaps IBM's dark horse over the next several years.

References:

IBM Press Releases and Business Partner Communication

Chapter 52

Top Acquisitions by the Top Innovators

November 2007 was a busy month for the top 20 Innovators of The Innovation Index. Besides announcing key innovations, and staying on course with 53% performance gains for the year, the Innovators added more punch - in the form of key acquisitions, mostly large. Here is a roundup of top acquisitions by the top innovators in November, and the potential impact of these acquisitions in 2008:

3M (NYSE: MMM) and Aearo Technologies Inc. (NYSE: AER) announced that "they have entered into a definitive agreement for 3M's acquisition of Aearo for a total purchase price of $1.2 billion, to be financed through a combination of cash and other borrowings. Aearo is a global leader in the personal protection industry and manufactures and markets personal protection and energy absorbing products. Aearo is owned by funds advised by Permira, a leading global private equity firm, and company management." For the past year, Aearo had revenue of $508 million, growing at a CAGR of 12%. Key Aearo brands include: E-A-R, Peltor, AOSafety and SafeWaze.

According to 3M press, "Aearo will significantly expand 3M's occupational health and environmental safety platform by adding hearing protection as well as eyewear and fall protection product lines to 3M's existing full-line of respiratory products. It provides a broad platform for accelerated growth. This acquisition enables 3M to provide industrial, military and construction customers as well as consumers with a more complete personal protection solution."

Further, Aearo has a reputation for developing high-quality, innovative products and strong market competitiveness. "The complete Aearo product line includes passive hearing, communication headsets, eye protection, head and face protection and fall protection. The company also markets systems solutions and proprietary energy absorbing materials, which are incorporated into other manufacturers' products to control noise, vibration, shock and temperature."

Bottomline: Expect 3M to increase the revenue by $550 to $650 million with Aearo acquisition; also, 3M legitimately and significantly expands it's occupational health and environmental safety platform to more than 70 countries where Aearo is already marketed and sold.

Earlier in the month, 3M also announced that "it has entered into a definitive agreement to acquire the business of Bondo Corp., a manufacturer of auto body repair products for the automotive aftermarket and various other professional and consumer applications.

Bondo's established brand complements 3M's well-known line of auto body repair products for the automotive aftermarket. Bondo brand products are designed for and widely recognized by both auto body repair professionals and enthusiasts. Products include body filler, fiberglass repair materials, under coatings, and adhesives. Bondo products are sold to the auto body professional market through auto body paint specialty stores in addition to mass merchandisers and auto parts retailers."

Bondo manufactures and markets automotive body repair, household repair and marine products under the Bondo, Mar-Hyde, Bondo Home Solutions, Dynatron, Marson, Laminex and Bondo Marine brand names.

Bottomline: Bondo, which was predominant in the South and Southeast, will open a huge distribution channel through 3M's network of dealers. Although, the deal will not have a significant EPS impact in 2008, it gives 3M key products with which to expand the Automotive line of business.

Dell (NASDAQ:DELL), another top 20 innovator, "signed an agreement to acquire privately held Everdream Corp., a leading provider of Software-as-a-Service (SaaS) solutions for remote-service management." Since terms were not declared, this appears to be a small investment for Dell.

Bottomline: Everdream could be a key component in Dell's strategy of enabling customers to Simplify IT. "Everdream's capabilities complement those provided by the recently acquired SilverBack Technologies, further enabling end-to-end remote management of customers' IT environments. With this acquisition, Dell can now extend remote management of critical IT assets from servers, storage, printers, etc. to desktops, notebooks and other end-user devices globally." Is Dell done with acquisitions in this market? This will have a minimal impact on EPS for 2008.

Earlier in the month, Dell (NASDAQ:DELL) ***announced plans to acquire EqualLogic, a leading provider of high-performance iSCSI storage area network (SAN) solutions uniquely optimized for virtualization.*** The acquisition will strengthen Dell's product and channel leadership in simplifying and virtualizing IT for customers globally. iSCSI SAN technology represents the fastest growing part of the storage business.

"Under the terms of the agreement, Dell will purchase EqualLogic for approximately $1.4 billion in cash. The acquisition of EqualLogic is expected to close late in the fourth quarter of Dell's fiscal year 2008 or early in the first quarter of fiscal 2009. The company expects the acquisition to be dilutive to earnings per share, excluding the amortization of intangibles, by $0.02 to $0.05 in aggregate for Fiscal 2009 and Fiscal 2010."

Bottomline: Dell spent a lot of money for this company and placing big bets on storage; however without an announced upside in revenue, rather a dilution of EPS, one can't help but think about the future revenue growth from this acquisition. Dell has "plans to grow EqualLogic's successful channel-partner programs with current and future EqualLogic-branded products, and also to incorporate EqualLogic technology into future generations of its Dell PowerVault storage line available through the channel and direct from Dell." The investors will be in a "wait-and-watch" mode here until Dell sees real revenue growth from these acquisitions.

IBM (NYSE: IBM), a top 20 innovator, and **Cognos(R) (NASDAQ: COGN) (TSX: CSN) announced that "the two companies have entered into a definitive agreement for IBM to acquire Cognos,** a publicly-held company based in Ottawa, Ontario, Canada, in an all-cash transaction at a price of approximately $5 billion USD or $58 USD per share, with a net transaction value of $4.9 billion USD. It is expected to close in the first quarter of 2008."

In one word, this acquisition is HUGE!! Huge for Cognos shareholders. Especially, since this was an all cash deal.

"The acquisition of Cognos supports IBM's Information on Demand strategy, a cross-company initiative announced on February 16, 2006 that combines IBM's strength in information integration, content and data management and business consulting services to unlock the business value of information. Integrating Cognos, the 23rd IBM acquisition in support of its Information on Demand strategy, will enable new business insights to be delivered to a broader set of people across an organization, beyond the traditional users of business intelligence.

IBM said the acquisition fits squarely within both its acquisition strategy and capital allocation model, and that it will contribute to the achievement of the company's objective for earnings-per-share growth through 2010."

Bottomline: Together, IBM and Cognos are poised to become the leading provider of technology and services for Business Intelligence (BI) and Performance Management, and Business process management and possibly financial management. Cognos provides a technology platform and leadership that IBM was lacking; on the other hand IBM provides a worldwide distribution platform for Cognos across multiple industries and geographies. Together, both companies provide a complete integrated solution. This acquisition will have a nominal upside on 2008 earnings for IBM. If IBM Global Services make Cognos an integral part of their portfolio, the potential upside is huge.

Microsoft Corp. (NASDAQ: MSFT), another top 20 innovator, **announced acquisition of Musiwave SA, an Openwave company (NASDAQ: OPWV) and a leading provider of mobile music entertainment services to operators and media companies, in particular in Europe.** The terms of the pending acquisition were not announced.

"Mobile operators are continually looking for ways to deliver digital entertainment to their customers, and have looked to companies such as Musiwave to deliver music services that help provide the necessary infrastructure. As a provider of white-label music solutions to mobile operators in Europe, Musiwave has helped to bring a rich selection of millions of ringtones, full-track downloads and music videos to consumers." According to technology research firm Ovum, 1,106 million mobile music phones will be shipped worldwide in 2010.

Bottomline: The acquisition would bring Musiwave's relationships with music labels, device makers and mobile operators that deliver digital entertainment to consumers, together with Microsoft's Connected Entertainment technologies and services, including Windows Mobile, Zune, MSN and Windows Live. This is a strategic entry point for Microsoft in Europe, and provides Microsoft a network and a platform on which to serve up mobile entertainment. Whereas Windows Mobile provides the client entry point on mobile, Musiwave extends this further into the world of music services delivered through a solid network. Musiwave is Microsoft's answer to iTunes.

November was a busy month for some of the top innovators. Would these acquisitions lead to more innovations and positively impact the 2008 revenue for these innovators? Would Innovation Index sizzle in 2008 as it has in 2007 due to these acquisitions and its direct impact on revenue growth? We will have to fast forward to July 2008 to find answers to these questions. For now, the innovators have paved the way with key acquisitions.

References:

Company Press Releases

Chapter 53

Will Yahoo merge with Microsoft?

Microsoft Corporation (NASDAQ: MSFT) made a written plea, a note in the form of a press release that went out to the board, employees, and shareholders of a rival, a sort of a friendly takeover, almost a pat on the back, urging them to consider Microsoft's request to acquire them at 62% premium to the closing stock price. Kudos Microsoft! You have not only mastered the art of creating and preserving market leadership, now you have shown us how to acquire a large company and get the world behind you. Now, it's up to the board to decide.

Microsoft is one of the Top 20 Innovators of The Innovation Index. The Innovation Index closed 2007 with 66% gain, beating the major U.S. indices.

Microsoft was in a friendly mood today, touting how great their rival is, perhaps even patronizing it. For the rival is no other than Yahoo, the company that got the Internet going, and is symbolic of the freedom and free spirit that embodies the Internet. Yahoo Inc. (NASDAQ: YHOO) was one of the Top 20 Innovators of The Innovation Index for 2007.

"We have great respect for Yahoo!, and together we can offer an increasingly exciting set of solutions for consumers, publishers and advertisers while becoming better positioned to compete in the online services market," said Steve Ballmer, chief executive officer of Microsoft. "We believe our combination will deliver superior value to our respective shareholders and better choice and innovation to our customers and industry partners."

"Our lives, our businesses, and even our society have been progressively transformed by the Web, and Yahoo! has played a pioneering role by building compelling, high-scale services and infrastructure," said Ray Ozzie, chief software architect at Microsoft. "The combination of these two great teams would enable us to jointly deliver a broad range of new experiences to our customers that neither of us would have achieved on our own."

The online advertising market is growing at a very fast pace, from over $40 billion in 2007 to nearly $80 billion by 2010. The resulting benefits of scale along with the associated capital costs for advertising platform providers make this a time of industry consolidation and convergence. ***Today this market is increasingly dominated by one player. Together, Microsoft and Yahoo! can offer a competitive choice while better fulfilling the needs of customers and partners.***

"The combined assets and strong services focus of these two companies will enable us to achieve scale economics while reaching R&D critical mass to deliver innovation breakthroughs," said Kevin Johnson, president of the Platforms & Services Division of Microsoft. "The industry will be well served by having more than one strong player, offering more value and real choice to advertisers, publishers and consumers."

Is Microsoft playing the role of a savior, or the role of a pirate waiting for the best opportunity? Yahoo just announced the annual and fourth quarter earnings two days ago, and missed the earnings estimates, and saw its stock plummet more than 10%. Further, Yahoo co-founder and chief executive officer, Jerry Yang, said, "While we will continue to face headwinds this year, we believe that the moves we are making will help us exit 2008 stronger and more competitive and return to higher levels of operating cash flow growth in 2009." Yang was essentially telling the world and the investors to give Yahoo until 2009 to rebound, to turnaround. The investors simply balked and retreated. Hence, this provided Microsoft the best opportunity, at a time when the investors were fleeing thereby sending Yahoo stock at a multi-year low, and a shaken leadership who may look for the escape hatch.

In a letter sent to the Yahoo board, Microsoft explains the rationale behind the acquisition: "*Microsoft's consistent belief has been that the combination of Microsoft and Yahoo! clearly represents the best way to deliver maximum value to our respective shareholders, as well as create a more efficient and competitive company that would provide greater value and service to our customers. In late 2006 and early 2007, we jointly explored a broad range of ways in which our two companies might work together. These discussions were based on a vision that the online businesses of Microsoft and Yahoo! should be aligned in some way to create a more effective competitor in the online marketplace. We discussed a number of alternatives ranging from commercial partnerships to a merger proposal, which you rejected. While a commercial partnership may have made sense at one time, Microsoft believes that the only alternative now is the combination of Microsoft and Yahoo! that we are proposing*."

Microsoft articulates this further, "In February 2007, I received a letter from your Chairman indicating the view of the Yahoo! Board that "now is not the right time from the perspective of our shareholders to enter into discussions regarding an acquisition transaction." According to that letter, the principal reason for this view was the Yahoo! Board's confidence in the "potential upside" ***if management successfully executed on a reformulated strategy based on certain operational initiatives, such as Project Panama, and a significant organizational realignment. A year has gone by, and the competitive situation has not improved."***

Make no mistake. Whereas Microsoft is willing to provide a steep premium of 62% and value Yahoo at a huge $44.6 billion, the real prize that Microsoft is going after is Google Inc. (NASDAQ: GOOG), another Top 20 Innovator of The Innovation Index. Microsoft accepts Google's dominance in the market of online search and advertising (it states this in its own press release), and Microsoft does not like it and is not willing to accept it. It has waited way too long, tried many different things with its own MSN and Live services, and yet has not made a dent in the Search market. And the lead has only grown. Google narrowly missed earnings in the latest quarter. Microsoft smells blood. If Microsoft acquires Yahoo, together they would own about 32% of the U.S. search market, still a distant second to Google's 50% plus market share. But, if Microsoft does not acquire Yahoo, and with Yahoo floundering, it may have to give up on the search market altogether. Which Microsoft is not willing to do!

So now the question of the day is "**What if Jerry Yang and the Yahoo board reject Microsoft's latest overture?**" Are they in a position to defend the rejection this time around? Yahoo shareholders are definitely salivating at the sweet offer, and would be unwilling to relent now. By going public, Microsoft has really put the acquisition in the hands of the investors and shareholders. How did Yahoo reply to Microsoft bid? Yahoo issued a press release indicating: "*The Company said that its Board of Directors will evaluate this proposal carefully and promptly in the context of Yahoo!'s strategic plans and pursue the best course of action to maximize long-term value for shareholders*." Yahoo was quick to point out that shareholders matter.

How would the deal impact Google? Last year, I talked about Google versus Yahoo - A tale of two cities and Google's growing market share; there were even talks on whether Yahoo can catch Google. Google will have a worthy nemesis in the short term, however, may prove to be a bigger winner in this particular battle in the longer term. It is quite possible that after Microsoft acquires Yahoo, even more users will switch from Yahoo and begin using Google services. Yahoo brand still represents a sort of enigma, the last man standing in the heated battle of Internet. Yahoo is the underdog that many users still like to use and embrace. However, with the takeover by Microsoft, this perception will change overnight. And Yahoo users may not stay with Yahoo, and go to Google. This could benefit Google even more. If Microsoft is to create a real market out of the Yahoo brand, it must embrace the Yahoo brand, and relinquish its own search to Yahoo eventually. Perhaps this should be Yahoo board's decision - only merge if Yahoo brand and Yahoo search stays.

Assuming Microsoft finds a way to pay for this large acquisition (Microsoft has proposed 50% cash or about $22 billion, and 50% stock), *how would the $44.6 billion deal compare to the Top Ten Mergers and Acquisitions since 2000*? It would not make it to the top ten list, however, will definitely make it in the top twenty. And it would be the largest acquisition by Microsoft ever, easily eclipsing last year's $6 billion acquisition of AQuantive.

The largest M&A deals worldwide since 2000:

Rank	Year	Acquirer	Target	Transaction Value (in Mil. USD)
1	2000	*Merger*: America Online Inc. (AOL)	Time Warner	164,747
2	2000	Glaxo Wellcome Plc.	SmithKline Beecham Plc.	75,961
3	2004	Royal Dutch Petroleum Co.	Shell Transport & Trading Co	74,559
4	2006	AT&T Inc.	BellSouth Corporation	72,671
5	2001	Comcast Corporation	AT&T Broadband & Internet Svcs	72,041
6	2004	Sanofi-Synthelabo SA	Aventis SA	60,243
7	2000	*Spin-off*: Nortel Networks Corporation		59,974
8	2002	Pfizer Inc.	Pharmacia Corporation	59,515
9	2004	*Merger*: JP Morgan Chase & Co.	Bank One Corporation	58,761
10	2006	*Pending*: E.on AG	Endesa SA	56,266

Source: Institute of Mergers, Acquisitions and Alliances Research, Thomson Financial

Bottomline:

Yahoo board may accept Microsoft's proposal this time around. This is one acquisition where Google is not going to try to outbid Microsoft. There will be intense negotiations between Yahoo and Microsoft on the future of Yahoo Search, key Yahoo properties such as email and Finance, and Yahoo employees. However, in the end, would this be too sweet a deal for the Yahoo board to reject? Would Yahoo ride into the sunset?

References:

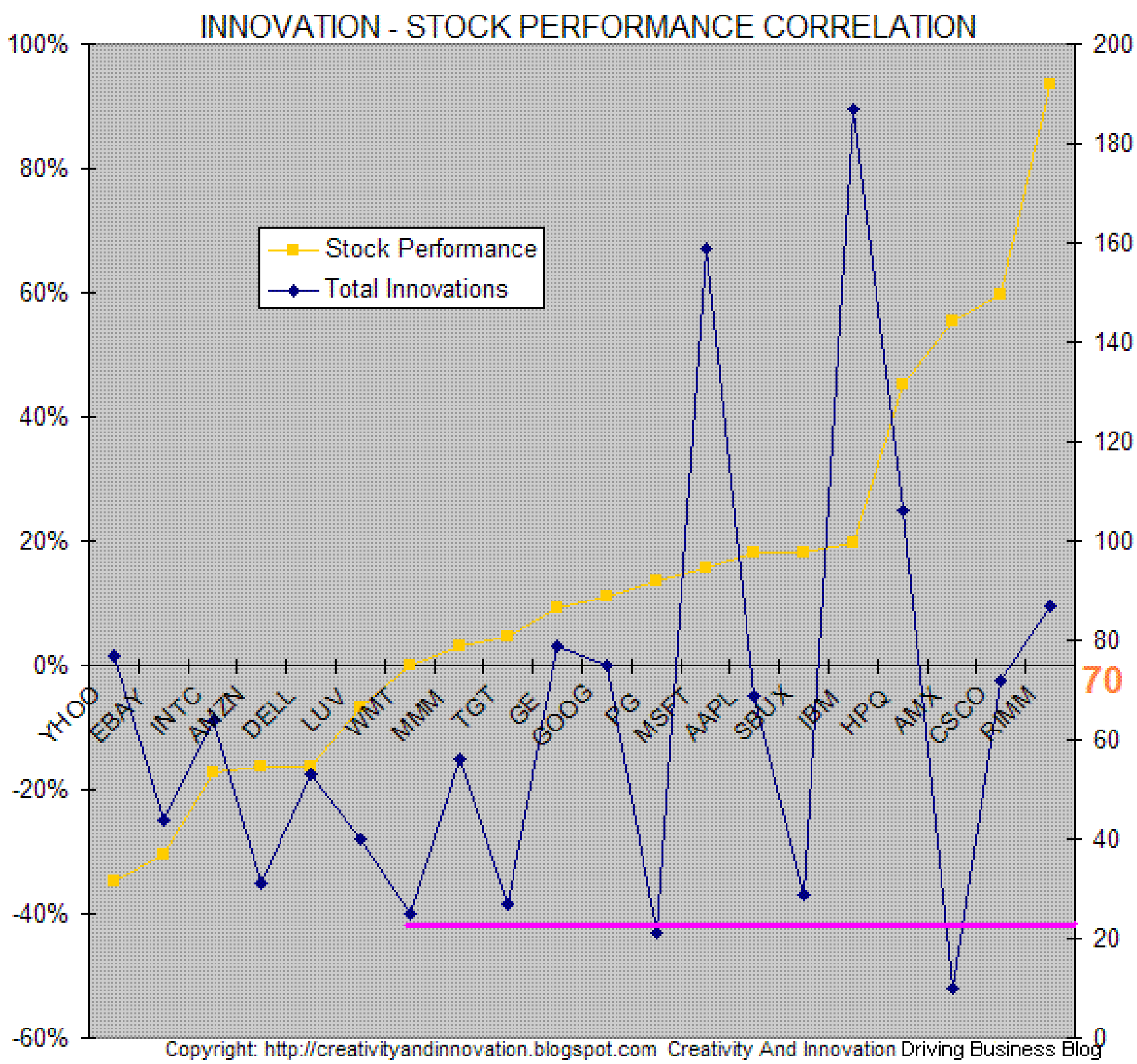
Microsoft and Yahoo Press Releases

Chapter 54

Innovation And Stock Performance Correlation

In Chapter Two of the Innovation Index Annual Report, I compared the Stock Performance of The Top 20 Innovators with Total Innovations - Innovation Activity comprising of new products, collaborations and acquisitions for 2006.

I have created the Innovation - Stock Performance Correlation Chart that demonstrates this correlation between the two variables:



What are some insights to be gained from this?

There is a very high probability between Positive Stock Performance and Total Innovations with the **magic number of 70**.

Eight of the Nine Innovators, or 89%, who had Total Innovations of about 70 or higher exhibited a Positive Stock Performance in 2006 (Apple had 69 innovations). The average Stock Performance gain of these eight Innovators was 34% in 2006. Only Yahoo! exhibited negative stock gains in 2006 out of this group.

The Top 20 Innovators	Ticker	Stock Performance	New Products	Collaborations	Acquisitions	Total Innovations
IBM	IBM	20%	130	43	14	187
Microsoft Corporation	MSFT	16%	75	72	12	159
Hewlett-Packard Co.	HPQ	45%	75	24	7	106
Research In Motion Limited	RIMM	94%	16	70	1	87
General Electric Co.	GE	9%	39	20	20	79
Yahoo! Inc.	YHOO	-35%	38	37	2	77
Google Inc.	GOOG	11%	44	25	6	75
Cisco Systems, Inc.	CSCO	60%	43	20	9	72
Apple Inc.	AAPL	18%	55	14	0	69

On the other hand, there is a good probability between Negative or Even Stock Performance and Total Innovations that are less than 65.

Six of the Eleven Innovators, or 54%, who had Total Innovations less than 65 exhibited a Negative or Even Stock Performance in 2006. Clearly, the correlation between Negative Stock Performance and Total Innovations less than 65 is demonstrably weak.

The Top 20 Innovators	Ticker	Stock Performance	New Products	Collaborations	Acquisitions	Total Innovations
Intel Corporation	INTC	-17%	20	44	0	64
3M Company	MMM	3%	39	4	13	56
Dell Inc.	DELL	-16%	47	5	1	53
eBay Inc.	EBAY	-30%	35	7	2	44
Southwest Airlines Co.	LUV	-7%	38	2	0	40
Amazon.com, Inc.	AMZN	-16%	23	7	1	31
Starbucks Corporation	SBUX	18%	25	2	2	29
Target Corp.	TGT	5%	21	6	0	27
Wal-Mart Stores, Inc.	WMT	0%	20	3	2	25
The Proctor & Gamble Co.	PG	13%	17	3	1	21
America Movile	AMX	56%	5	3	2	10

We will check again in 2007 on whether this correlation holds, the magic Total Innovation number of 70 stays at 70, or new trends emerge.

I am not trying to imply that Stock Performance only depends on Total Innovations. As we know very well, Stock Performance depends heavily on Current Earnings, Future Outlook, Revenue and Earnings Growth besides other environmental factors. However, it is interesting to correlate Stock Performance with Total Innovations, and whether the Innovation Output of an Organization leads to current or future Stock Performance gains.

For instance, are Yahoo!'s 77 Innovations in 2006 helping Yahoo!'s Stock Performance in 2007? Did the pipeline of New Innovations introduced in 2006 is resulting in positive Stock Performance in 2007? What about IBM who had a whopping 187 new Innovations? IBM should clearly do well in 2007. Or would it?

References:

Company Earnings Reports

Company Press Releases

Chapter 55

The Innovation Index Annual Report

The Top 20 Innovators of The Innovation Index had a remarkable 2006 shaping out over 1,311 new innovations over the year, an average of 67 innovations per Innovator. The Top 20 Innovators created 805 new and enhanced products, 411 strategic collaborations and partnerships, and 95 new acquisitions. It's safe to say that our Top 20 Innovators were busy in 2006 creating a plethora of new products, collaborations and acquisitions, and solid revenue growth.

The Top 20 Innovators	Ticker	Performance	New Products	Collaborations	Acquisitions	Total Innovations
3M Company	MMM	3%	39	4	13	56
Amazon.com, Inc.	AMZN	-16%	23	7	1	31
America Movile	AMX	56%	5	3	2	10
Apple Inc.	AAPL	18%	55	14	-	69
Cisco Systems, Inc.	CSCO	60%	43	20	9	72
Dell Inc.	DELL	-16%	47	5	1	53
eBay Inc.	EBAY	-30%	35	7	2	44
General Electric Co.	GE	9%	39	20	20	79
Google Inc.	GOOG	11%	44	25	6	75
Hewlett-Packard Co.	HPQ	45%	75	24	7	106
IBM	IBM	20%	130	43	14	187
Intel Corporation	INTC	-17%	20	44	-	64
Microsoft Corporation	MSFT	16%	75	72	12	159
Research In Motion Limited	RIMM	94%	16	70	1	87
Southwest Airlines Co.	LUV	-7%	38	2	-	40
Starbucks Corporation	SBUX	18%	25	2	2	29
Target Corp.	TGT	5%	21	6	-	27
The Proctor & Gamble Co.	PG	13%	17	3	1	21
Wal-Mart Stores, Inc.	WMT	0%	20	3	2	25
Yahoo! Inc.	YHOO	-35%	38	37	2	77
Top 20 Innovators Totals			**805**	**411**	**95**	**1,311**
Top 20 Innovators Average			**40**	**21**	**6**	**67**
The Innovation Index		**13.2% <> 17.8%**				
S & P 500		13.62%				
NASDAQ		9.52%				
Dow Jones Index		16.29%				
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The investors rewarded the Top 20 Innovators. Their combined market cap increased by 11% to $2.23 trillion from $2.01 trillion in 2006, an average increase of $11 billion per Innovator. Their combined stock performance gain: **13.2%** in 2006, and a five year return of 119% (one stock invested per Innovator).

The normalized stock performance is even more impressive: **18%** in 2006, and a five year return of 174% ($100 invested in each Innovator).

		2001	2002	2003	2004	2005	2006
The Innovation Index		**$100**	**$81.82**	**$120.29**	**$158.94**	**$194.27**	**$218.89**
S & P 500	^GSPC	$100	$76.63	$96.85	$105.56	$108.73	$123.54
Nasdaq	^IXIC	$100	$68.47	$102.72	$111.54	$113.07	$123.84
Dow Jones	^DJI	$100	$83.24	$104.31	$107.60	$106.94	$124.36
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		2001	2002	2003	2004	2005	2006
The Innovation Index Normalized		**$100**	**$86.13**	**$152.95**	**$209.77**	**$232.18**	**$273.50**
S & P 500	^GSPC	$100	$76.63	$96.85	$105.56	$108.73	$123.54
Nasdaq	^IXIC	$100	$68.47	$102.72	$111.54	$113.07	$123.84
Dow Jones	^DJI	$100	$83.24	$104.31	$107.60	$106.94	$124.36
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Innovation Leaders

Who led the year in stock performance, market cap growth, new products, collaborations and acquisitions? And who is the top Innovator – the Innovator of Innovators – of 2006? Not a single Innovator led across all categories.

Research In Motion (NASDAQ: RIMM) led all the Innovators with the best stock performance, gaining 94% for the year. America Movile (NYSE: AMX) and Cisco Systems (NASDAQ: CSCO) each gained 56% and 60% respectively in stock performance. Hewlett-Packard (HP) (NYSE: HPQ) had a great year as well, returning 45% for the year.

Cisco Systems led all the Innovators with the highest single year market capitalization gain: $62 billion in increased market cap. Microsoft Corporation (NASDAQ: MSFT) had a solid year in stock performance, gaining 16%, and increasing the market cap by $40 billion. HP went on a tear with 45% increase in stock price, gaining $34 billion in market cap. General Electric (NYSE: GE) also performed nicely, gaining 9% in stock performance, and increasing market cap by $33 billion.

But when it comes to new and enhanced product introductions, no one came close to IBM (NYSE: IBM). IBM introduced a whopping 130 new products in 2006. The next closest Innovators were Microsoft Corporation (NASDAQ: MSFT) and Hewlett-Packard tied with 75 new products each. Apple Inc. (NASDAQ: AAPL) kept up the innovation pipeline with 55 new introductions. The Top 20 Innovators averaged 40 new products per year.

Microsoft eked out Research In Motion in collaborations. The mighty Microsoft had 72 collaborations and partnerships over the year. If you believe this is a huge number, the upstart Research In Motion was extremely busy as well chalking out 70 new collaborations. Intel Corporation (NYSE: INTC) was next with 44 new collaborations, followed closely by IBM with 43 collaborations. The Top 20 Innovators averaged 21 collaborations per year.

GE led all Innovators with 20 new acquisitions. Three other Innovators had double-digit acquisitions: IBM with 14, 3M Company (NYSE: MMM) with 13 and Microsoft with 12. The Top Innovators averaged 6 acquisitions per year. However, many did not believe acquisition to be their top innovative strategy: Apple, Intel, Target Corporation (NYSE: TGT) and Southwest Airlines (NYSE: LUV) did not acquire a single company in 2006.

The Top 20 Innovators	Ticker	2006%	Performance	Total Innovations	X Factor	Ranking
Hewlett-Packard Co.	**HPQ**	**45%**	**4**	**3**	**1**	**1**
IBM	**IBM**	**20%**	**5**	**1**	**2**	**1**
Cisco Systems, Inc.	CSCO	60%	2	8	4	3
Microsoft Corporation	MSFT	16%	8	2	6	4
Research In Motion Limited	RIMM	94%	1	4	12	5
General Electric Co.	GE	9%	11	5	3	6
Apple Inc.	AAPL	18%	7	9	7	7
Google Inc.	GOOG	11%	10	7	8	8
Starbucks Corporation	SBUX	18%	6	16	10	9
3M Company	MMM	3%	13	11	9	10
The Proctor & Gamble Co.	PG	13%	9	19	5	10
America Movile	AMX	56%	3	20	11	12
Target Corp.	TGT	5%	12	17	13	13
Intel Corporation	INTC	-17%	18	10	14	13
Dell Inc.	DELL	-16%	16	12	15	15
Yahoo! Inc.	YHOO	-35%	20	6	18	15
Southwest Airlines Co.	LUV	-7%	15	14	17	17
eBay Inc.	EBAY	-30%	19	13	16	18
Wal-Mart Stores, Inc.	WMT	0%	14	18	19	19
Amazon.com, Inc.	AMZN	-16%	17	15	20	20

Based on the 2006 stock performance, total innovations, and the X Factor attributed to several factors, here is how the Top 20 Innovators would have stacked up looking into 2007. How did these Top 20 Innovators perform in 2007?

The Top 20 Innovators	Ticker	Dec 29, 2006	Dec 31, 2007	2007 %	2006 %
3M Company	MMM	77.44	84.32	9%	3%
Amazon.com, Inc.	AMZN	39.46	92.64	135%	-16%
America Movil	AMX	45.22	61.39	36%	56%
Apple Inc.	AAPL	84.84	198.08	133%	18%
Cisco Systems, Inc.	CSCO	27.33	27.07	-1%	60%
Dell Inc.	DELL	25.09	24.51	-2%	-16%
eBay Inc.	EBAY	30.07	33.19	10%	-30%
General Electric Co.	GE	37.21	37.07	0%	9%
Google Inc.	GOOG	460.48	691.48	50%	11%
Hewlett-Packard Co.	HPQ	41.19	50.48	23%	45%
Intel Corporation	INTC	20.14	26.66	32%	-17%
IBM	IBM	96.86	108.10	12%	20%
Microsoft Corporation	MSFT	29.76	35.60	20%	16%
Research In Motion Limited	RIMM	42.59	113.40	166%	94%
Southwest Airlines Co.	LUV	15.32	12.20	-20%	-7%
Starbucks Corporation	SBUX	35.42	20.47	-42%	18%
Target Corp.	TGT	56.94	50.00	-12%	5%
The Proctor & Gamble Company	PG	63.96	73.42	15%	13%
Wal-Mart Stores, Inc.	WMT	46.18	47.53	3%	0%
Yahoo! Inc.	YHOO	25.54	23.26	-9%	-35%
The Innovation Index		65.05	108.27	66%	18.01%
S & P 500	^GSPC	1,418.30	1,468.36	4%	13.62%
NASDAQ	^IXIC	2,415.29	2,652.28	10%	9.52%
Dow Jones	^DJI	12,463.15	13,264.82	6%	16.29%

Amazon.com, Apple and Research In Motion led all innovators with whopping triple-digit stock performance in 2007. What caused this amazing growth in shareholder value and revenue growth? Innovation and Execution versus the plan: New products and services including MP3 music by Amazon.com, iPhone by Apple, and Blackberry Curve and worldwide distribution by RIM. What is interesting is that although Amazon had a negative return in 2006, it rebounded with a bang in 2007. Overall, 14 innovators showed a positive performance gain. The gain by average of stock price index was 39%, by average of percentage performance index was 28%, by market cap weighted index was 34% and by Innovation Index was 66% - all gains easily beating the major U.S. indices. Bottomline: Top 20 Innovators easily outperform the broader markets.

References:

Company Earnings Reports
Company Press Releases

Chapter 56

$1 Billion Or The Future

A stalling business was given two options:

1. $1 billion dollar today

OR

2. The future of the business (knowledge of what will happen in the future)

What will the business do? Which option will it take?

What would you do if you were given a choice of $10 million today, or knowing your future?

Would you take the money, and make a new future?

OR

Would you find out everything about your future and relax?

What does this question have to do with Creativity and Innovation?

The Top 20 Innovators of The Innovation Index are always grappling with the question of what to do with the money (profits) they generate!!

Frequently though, the Innovators bow in to investor pressures and stock valuations, and use the money to buy back shares or provide dividends! Is this innovation? Is the future of the business secured by buying back shares? Who tends to benefit the most? Only the shareholders, employees and executives are rewarded by the stock buybacks and dividends. The business needs additional money to innovate and grow, create new innovations, penetrate new markets! Just buying back shares does not create the organic growth. Yet, even the top innovators such as IBM and 3M buy back shares regularly (albeit to offset at times their worldwide profits). The amazing part though is that these innovators innovate extremely well. Perhaps they have found the appropriate tipping point between innovating and leveraging the capital for buybacks. On the other hand, innovators such as Apple and Google do not buy back shares or pay dividends, much to the chagrin of some investors. On the contrary, they use most of the available capital from profits to expand and innovate, and they have created superb innovations.

The other extreme is where Innovators use the cash too freely and go on a buying spree - "let's acquire a whole lot of companies, and integrate them into our core businesses." The efficiencies generated will pay for the costs over time, and if we get lucky, the acquisition will hit a home run! Do acquisitions pave the way to future innovations? Perhaps. If acquisitions bridge an existing innovation gap, provide an entry into a new market, or make an existing product or service better, they could lead to organic growth. GE is an acquisition machine. IBM, HP, 3M, P&G, AT&T, Cisco, Intel, Microsoft and even Google have made large acquisitions to fuel growth. At times, acquisitions are defensive in nature, and allow an innovator to block out a competitor. Too often, large acquisitions fail owing to overly optimistic projections about the future, and lofty valuations produced by the M & A teams.

Then there are Innovators who generate too much cash from the existing business, and don't know what to do with it. They miss out on the changing landscape, the changing ecosystem of demand, the growth opportunities that they could have pursued, should have sought! These businesses pass on the cash through dividends to share holders, or often, sit on the cash, only to realize a few years down the road after knowing the future that they should have used the cash to create new opportunities and innovations today, and used their creativity to create the future with the available cash. Such innovators either get marginalized or commoditized, and even go as far as to create processes that inherently block creativity. These innovators become complacent, become comfortable with the profits, and lose the winning edge that made them innovators in the first place. Eventually, these innovators lose out in the market place. Did Dell and Starbucks become marginalized? Did Yahoo lose its winning edge? How about Southwest Airlines? Would it reinvent itself and become a favorite for business travelers?

More often than not, the young Innovators (companies less than ten years old) maximize the use of cash to create new innovations and opportunities, and at times disruptive innovations. These innovators are driven by entrepreneurship, an underlying mission to carve out new products and new markets, and survival. These innovators experiment vigorously with products, process, business models, operations, design and as such everything until they get it right. These innovators take calculated risks and seize the winning opportunity. And they succeed at first. As these innovators become older, they become conservative, and tend to minimize risks - even become risk averse. However, the Top 20 Innovators of The Innovation Index strive to leverage the free cash flow, and use their potential and reach through proven processes to create new game-changing innovations that fuel growth time and time again.

The bold companies who take risks and innovate make a new future, every year.

About Sanjay Dalal

Sanjay Dalal is an innovator, entrepreneur and an investor. He is currently the Chief Innovator of InnovationMain.com – Creativity And Innovation Driving Business and Chief Marketer of Semdia.com. Sanjay's company is an active member of the Irvine Chamber of Commerce. Sanjay is an appointed member of Dean's Leadership Circle of Paul Merage School of Business, University of California, Irvine, and an appointed adviser and lecturer for Web 2.0 at Cal State University Fullerton Extended Education.

Sanjay introduced Creativity And Innovation Driving Business Blog in September 2006, and *The Innovation Index* in December 2006. Sanjay has published over 200 articles on Creativity and Innovation in Business and The Innovation Index since 2006. These reports have obtained solid market coverage by the investment and innovation community including such websites as: Google Finance, Yahoo, InnovationTools.com, Denver Post, Boston Herald, Houston Chronicle, News.com, About.com, Marketwatch, Kiplinger, Business Innovation Insider, and more.

Sanjay has over ten years leadership experience at enterprising Silicon Valley companies. At WebEx Communications, Sanjay, in his role as a product manager & product director, introduced two innovative collaboration software, WebEx Training Center & WebEx Sales Center, which became market share leaders in their category generating tens of millions of dollars in business. Sanjay holds a joint U.S. Patent for "System & Method for Managing Remote Computer Labs". Sanjay led the first two acquisitions for WebEx, and participated or led 30 strategic partnerships with companies including Cisco, SAP, British Telecom, AT&T, Yahoo!, CoVisint, American Express, Salesforce.com, & more. Before WebEx, Sanjay worked in key product marketing position at eComLive launching an innovative collaboration software Visual Rendezvous that became the market leader in cross-platform collaboration, at IBM in Engineering & Product roles in the PowerPC division, and at Honeywell Bull in Product & Business assignments.

Sanjay is a graduate of The University of Texas at Austin in Electrical Engineering (Dean’s Honor Roll, Engineering Scholar, and President’s Honor Roll at OU), completed graduate coursework in Computer Science at Arizona State University, and obtained professional certification on Leading Management Teams from Cornell University. Sanjay received the first position in the 50th William Lowell Putnam Math Competition.

Sanjay was a basketball coach thrice for his son’s teams (Fremont NJB, Irvine NJB and Rancho Middle School). He was an art master for his daughter’s 2nd grade class. As the secretary of the Turtle Rock School Site Council, he works on raising the performance of the elementary school students. Sanjay was the appointed member by the Board of Education for the Technology Advisory Committee for the entire Fremont School District (40,000 students). Sanjay manages the non-profit Osteoporosis Foundation and is an active member of Rotary Club of Newport-Irvine. Sanjay is married and resides with his wife and children in Irvine, California.