INNOVATION LEADER
RESEARCH — Q1 2017

Research

Innovation Teams & Business Units: Allies or Adversaries?

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BUSINESS UNITS ARE OPERATORS...

They're driven by concrete, near-term financial goals. The thrill of the big deal, the press release that moves the stock price. They excel at keeping supply chains and factories humming, and overseeing complex networks of salespeople, distributors, retailers.

INNOVATION TEAMS ARE EXPLORERS...

By definition, they're responsible for looking further ahead, exploring terrain that hasn't yet been mapped. They're motivated by spotting something first — whether an emerging customer preference, a new business model, or a technological possibility. Often their prototypes and projects can seem like an entry in the science fair. How well will this work at scale? Will customers even want it? Why are none of our competitors doing this yet?

FEW RELATIONSHIPS IN A LARGE COMPANY ARE AS **CHALLENGING** AS THE ONE BETWEEN AN **INNOVATION TEAM** OR A RESEARCH AND DEVELOPMENT GROUP AND THE **BUSINESS UNITS**.

The cultural chasm between the two is huge. So it isn't surprising that conflict can arise when the business units are responsible for setting an R&D group's direction, or funding its projects. Or when a "skunkworks" innovation group that has been nurturing a new product or service hands it over to a business unit to bring it to market — only to realize that no one there is invested in its success.

Is there an ideal working relationship between operators and innovators? We believe there is — built on well-defined roles, appropriate resources, and, most importantly, a shared vision of what the organization is trying to achieve, co-signed by the CEO and other senior leaders.

How Far or How Close?

The biggest decision a company can make regarding the linkage between an innovation or R&D group and the lines of business is about distance. Think of a satellite or space telescope orbiting the earth: you can see with so much more clarity when you're outside of the atmosphere. But get too close to the planet, and the gravitational pull will bring you back to the surface (often as a flaming piece of wreckage). Go too far out, exploring the edges of the solar system, and communication becomes challenging.

Innovation groups have more latitude to explore, and can sometimes see better, when they have some distance from the day-to-day concerns and needs of the business units. But the greater the distance, the more likely it is they will encounter friction when transferring their projects to the business units for commercialization. The closer to the business units they get, the less friction there is — but there's more pull to solve well-understood problems, help react to competitors' moves, and deliver products and services needed to fill the pipeline in the near-term. Sometimes companies set up an innovation group with the expectation that it will be able to commercialize its own ideas, spawn a new business unit, or spin off independent new ventures. But that's a very complicated path, even when there is support from the company's leadership. It involves building new kinds of muscles, rather than taking advantage of muscle mass the company already has.

What Types of Involvement?

We believe that at most companies, once the objectives have been set for an R&D or innovation group, there's an ideal amount of involvement for the business units — which can range from extremely limited (when working on Horizon 3 or disruptive ideas) to continually engaged (when working on Horizon 1 or 2, more near-term ideas.) This involvement can include:

- Helping set targets for the innovation group to work on
- Providing funding or resources
- Lending or rotating people through the innovation group, or offering expertise
- Providing input on projects, or access to customers for input
- Giving the thumbs up or thumbs down to projects that will either launch, be shelved, or require more work
- Taking responsibility for launch/commercialization.

In general, the more involvement business units have, the more the R&D or innovation group tends to become a consultant or auxiliary product development resource to the business units. With less involvement, R&D and innovation groups have the freedom to develop ideas that customers may not know they want; that are ahead of competitors; that leverage new kinds of technologies or infrastructure; or that help the company enter new market segments or pursue new business or service delivery models. With absolutely no business unit involvement, the risk of "organ rejection" skyrockets — the business unit often simply under-resources or abandons a project that has been transitioned over. (See the illustrations on page 15 for more on this.)

Creating Accountability for Success in the Transition

One issue to which most companies do not devote enough attention is creating accountability and incentives for success. The moment when a nascent idea is given to a business unit is one of the most vulnerable phases of innovation. Is the CEO or another senior executive paying attention to the milestones it is expected to hit, and asking whether members of the innovation team are continuing to support it as promised? Are staffers in the business unit committing the time and resources promised? Are there goals for the business unit to generate growth through new products and services? Are there "after action" reviews when products launch, or fail to launch, to analyze what went right and wrong, and what could be improved next time?

If there's an expectation that the best work being done by the innovation group or R&D will make it to market, this is a key place for senior leadership to be involved, with regular check-ins and reports.

Survey Data

The vast majority of the 164 respondents to a survey we fielded in January 2017 told us that their relationship with the business units could best be described as a close collaboration. Sixty percent said the business units were "somewhat involved" with their work, and another 26 percent said they were "extremely involved," with continuous communications and check-ins occurring. Just 15 percent of respondents are better described as independent explorers, pursuing a research or innovation strategy without much involvement (or interference) from the lines of business.

On the funding front, 30 percent of respondents said that they had their own dedicated budget. Forty-six percent said their budget was a blend of dedicated money and funding from business units, which is often tied to specific projects. Twenty-four percent told us that business units provide the majority of their funding.

Only three of our 164 respondents (1.8 percent) said they didn't plan to do any sort of hand-off to a business unit for deployment. That may mean they're creating new mini-units or joint ventures. A surprising 48 percent described the hand-off process as "good," but said it could benefit from improvement. (That was our most positive answer choice on that particular question; in retrospect, we should have offered an option for "excellent; needs no improvements.") Twenty-six percent said the hand-off "could use serious work," and 16 percent described it as "terrible," with projects often withering after they'd been transferred over to a business unit. Eight percent haven't yet had the experience of trying to engineer a hand-off.

One survey respondent wrote that "we have not been successful when new solutions are 'thrown over the wall' to the BU for deployment." Another said simply that "hand-offs don't work. It needs to be a transition, with the business unit involved during the end of the R&D period and the innovation team staying on [to serve] as consultants during [the] start-up [phase]."

More than 100 of our survey respondents contributed advice about forging a constructive working relationship with the business units. That advice is summarized on page 17 in the section titled, "Advice From Respondents: How do you ensure that projects don't die after the hand-off?"

DON'T CALL IT A HAND-OFF

"Hand-offs don't work," one survey respondent wrote. "It needs to be a transition…"

Respondents based on industry. The largest respondent clusters from the survey were technology (18 percent), consumer products (14 percent), finance (12 percent), healthcare (12 percent), and manufacturing (9 percent).

“HAND-OFFS DON’T WORK. IT NEEDS TO BE A TRANSITION, WITH THE BUSINESS UNIT INVOLVED DURING THE END OF THE R&D PERIOD AND THE INNOVATION TEAM STAYING ON [TO SERVE] AS CONSULTANTS DURING [THE] STARTUP PHASE.”

Recommendations

We also conducted a dozen interviews with executives at companies such as Clorox, Aon Health, Johnson & Johnson, GOJO Industries, Reliant Energy, W.L. Gore, and BASF, as well as executives at other manufacturing, insurance, chemicals, and apparel companies who requested anonymity. They outlined seven recommendations for partnerships that enable both innovation groups and the business units do what they are best at.

BLENDED FUNDING

When money comes entirely from the business units, that can pull an innovation group toward near-term projects, filling gaps in next year's product line, for example. But when funding comes entirely from the corporate budget, it can lead to things feeling unfocused — a group of people building a rocketship with no particular mission in mind.

Many companies take a blended approach, with business units backing projects of strategic interest to them, but some "sandbox money" that allows the innovation/R&D group to explore areas the businesses may not yet be interested in, or that don't fit neatly under one business unit's umbrella.

At Johnson & Johnson's network of innovation centers, which focus on investments and collaborations with fledgling healthcare companies, "the business units provide at least 50 percent of our deal funding," says Darren Snellgrove, Chief Financial Officer of J&J Innovation. "We've found that both sides having skin in the game and a say in the decision-making is an important component of success."

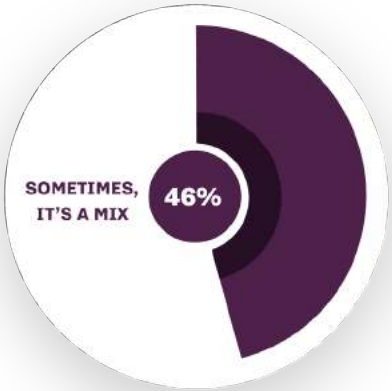
Snellgrove says that in analyzing past investments, "we've found that deals perform better when there's this kind of 50-50 collaboration approach." Without involvement, the business units don't pay enough attention to the deals; with too much, they may not take enough risk, Snellgrove says.

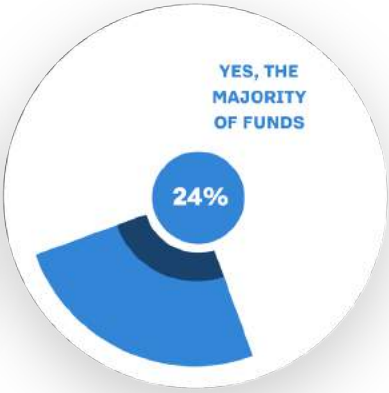
DEFINE THE FOCUS

What is the innovation team's mandate? How close in or far out is its focus? Many teams created in a rush of enthusiasm, by CEO decree, neglect to answer these questions. Or they do it with input only from senior leadership, and not the business units.

At Houston-based Reliant Energy, an energy services provider that is part of NRG Energy, business unit leaders help set the strategy, "which becomes our guidepost for the innovation program," says Scott Burns, Senior Director of Innovation and Customer Experience. "We're not a bunch of creative people who go into a room and brainstorm, and have Play-doh and things to play with and come out with a bunch of great ideas. I tend to hire generalists on my team, who understand the business, so they can do a good job communicating and gaining consensus on projects, so that they're much more likely to be accepted by the organization, and a success if we launch them."

Jim Winkler, the Global Chief Innovation Officer at Aon Health, part of $11.7 billion Aon Hewitt, says that as part of the annual budgeting process, "we have a day-long innovation session with our line of business leaders and a lot of our product people,





Innovation Leader

DO BUSINESS UNITS PROVIDE FUNDING FOR THE INNOVATION GROUP/NEW PROJECTS?

folks from IT, etc. who walk through where we see the marketplace evolving to, and the competitive landscape. Then, we present both our short-term product roadmap — the nip and tucks we need to do next year — and our big three, bet-the-ranch kinds of solutions that could take us a while to build. We ask, is all that stuff still the right stuff to be doing? The line of business leaders are very vocal participants in that process."

At a major New York-based insurer, projects typically have a sponsor from the business unit. But "when we're doing more exploratory stuff," says a Senior Vice President there, "a business unit sponsor isn't required, but always informed about what we are looking at and why."

The materials and fabrics producer W.L. Gore, headquartered in Newark, Delaware, is setting up a Silicon Valley innovation center in 2017, and the conscious decision is that it will search for new sources of growth, in part through partnerships with startups, universities, and other outside entities. "At least initially, we're not driven from or by the business units," says Linda Elkins, the head of the new center. "The innovation center will be its own cost center, and that will be independent of business unit funding." (A separate innovation "center of excellence" team works with business units at W.L. Gore to deploy lean startup and other methodologies, as a way to help them explore new applications and line extensions.)

Focus areas at GOJO Industries, the privately-held Ohio company best-known for its Purell brand of hand sanitizers, "aren't so tight that they restrict creativity," says April Bertram, "but there are enough guard rails where, if they brought something to us after doing [market probing], it's something we could likely commercialize after we work through some of the risk management. That was critical — getting strategic alignment. Completely critical." Bertram is a Business Development Director for SMARTLINK Solutions, a startup within GOJO; she previously served as Innovation Management Director at the company. SMARTLINK offers a sanitizer dispenser that can monitor, in a healthcare environment, who is using it and who isn't. Bertram says that the new business has been set up "like a little startup within the organization," though she collaborates with sales teams in various business units.

Bertram says that new projects don't necessarily require a sponsor from a business unit, or an approval, but "we just bring them along in the process. We stay connected so that if something comes out of [an exploration], then we're all on the same page."

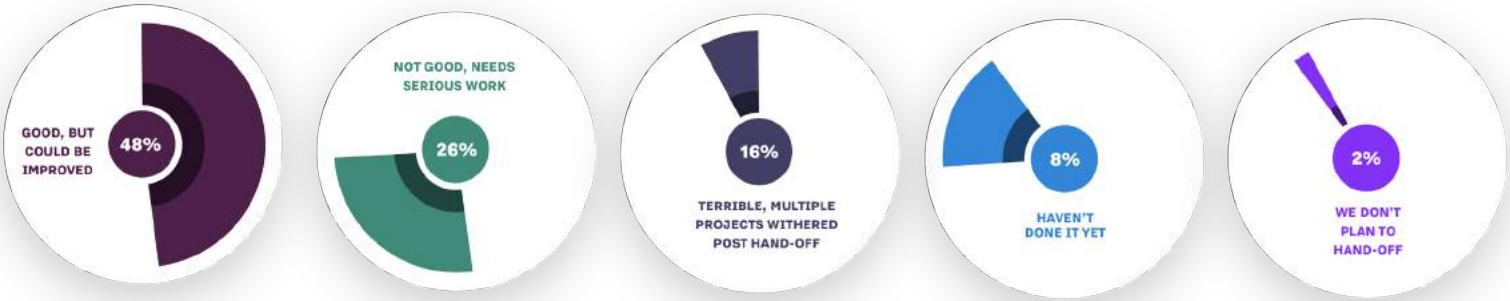
ROTATING AND EMBEDDING

Innovation teams can gain market expertise when they bring in staffers from the businesses, says Winkler at Aon Health. When a line of business is "going to benefit from the solution we're building, we borrow their people periodically," Winkler says. "It's all done virtually — we don't have a lab in a specific location." Other companies physically rotate people through stints at the innovation center, and then benefit from having innovation advocates when they return to their business unit.

Embedding is a different approach — putting staffers with innovation expertise into the business units, either permanently or as a project moves toward commercial launch.

At GOJO, innovation directors or small teams work within the business unit. These staffers "don't have

GIVE PEOPLE GUARD RAILS
Focus areas for innovation at GOJO Industries aren't so tight that they limit creativity, but the company looks to develop ideas that "we could likely commercialize after we work through some of the risk management," says April Bertram.



HOW WOULD YOU DESCRIBE THE EFFECTIVENESS OF THE "HAND-OFF" FROM INNOVATION/R&D TO THE BUSINESS UNITS FOR DEPLOYMENT?

any responsibility for incremental or short-term innovation, but are looking more long-term," explains Bertram. That practice began in the company's healthcare division, but has since spread to most other large business units. They have dotted-line reporting to GOJO's corporate innovation group, and when that central group needs subject matter experts from a particular sector, they provide it.

Having innovation-oriented executives inside the major business units, rather than centralized, gives them "the market intimacy and the knowledge of that business unit," Bertram says, "so that we can make sure we are solving the right problems."

Similarly, The Clorox Company has moved most innovation roles into the business units over the past five years. A corporate team focuses on coaching and improving processes, but "the majority of time and resources spent on innovation is at the business unit level," says Patrick O'Loughlin, Innovation Business Leader at Clorox. "Each brand has an innovation team composed of marketing, research, and R&D folks planning one to five years out."

Embedding can be a lightweight process, lasting for a day or a week, says one SVP in the insurance industry. "To find needs that are not being addressed, sometimes we go out to the business and observe. Things that we see potential in and feel strongly about, we'll do some groundwork and try to convince the business of the opportunity."

Other companies, like BASF, Pfizer, and Vodafone, have created networks of innovation champions or ambassadors outside of the central team. "They spread innovation ideas, knowledge, and best practices across the company," says Svetlana Dimovski, the former Senior Manager of Innovation Excellence at BASF, the German chemicals and materials company.

DELIVERING VALUE

Rather than becoming a "consulting arm" of a single business unit, and dedicating major resources to serving their needs, the innovation teams at some companies try to focus on projects that can benefit several different business units.

"Great examples of collaboration occur when the corporate innovation team pulls two or even three business units together, who can utilize or leverage a common project investment," says one Vice President of Corporate Innovation from the chemical industry. "That's truly finding the white space between businesses."

Even when the innovation team's mandate is to look for adjacent opportunities in the business, says O'Loughlin at Clorox, that process can identify larger, non-adjacent opportunities. "We helped our cleaning division lay out an adjacency map where Clorox could go and play. That process has worked really well, and we're applying it to other divisions, like food and professional products." He adds that "the adjacency process identified big new opportunity spaces and led to discovery projects that are currently underway. It has also enabled leadership to understand where we're going in the next one to five years."

Sometimes, identifying new opportunity spaces can lead to internal projects, O'Loughlin says; sometimes it leads to collaborations, like working with Procter & Gamble on Glad trash bags that are treated with

HOW INVOLVED ARE THE BUSINESS UNIT LEADERS IN SETTING THE R&D/INNOVATION AGENDA AT YOUR COMPANY?

Febreze or Gain detergent scents as a deodorizer; and sometimes it leads to acquisitions, as when Clorox acquired Renew Life in 2016, a maker of digestive health supplements.

Bertram at GOJO says that defining and proving a value proposition is important to getting business units engaged, and ensuring that money isn't wasted. "I recommend really nailing the value proposition and getting early alignment for the problem and solution on paper, in prototype form," she says, "before you do any formal development or invest more dollars."

Several companies, including Clorox and Johnson & Johnson, told us that one way they interact with and deliver value to the business units is by offering training on new techniques or "education around new, disruptive technologies that we're seeing," according to Snellgrove at J&J. There's also more to be done, he says, in terms of helping business units think through "business model innovation, because in healthcare, it's becoming more and more important."

COORDINATION AND COMMUNICATION

Frustration often ensues when people in a business unit and an innovation group end up taking separate meetings with the same prospective partner. (It can be frustrating not just internally, but to the partner as well.) It's difficult to "label" partners that might be near-term versus longer-term suppliers of a new technology, or enablers of a new business model. So the more sophisticated companies try to deploy tools for coordinating these conversations. "We have a database that lets anyone in the organization say, 'Hey, I'm meeting with this potential partner, just to let you know,'" says Bertram at GOJO. "That lets us check to see if anyone else has touched them, why they'd worked with them, so we can make sure that no one is duplicating work in exploring partnerships."

Presentations, internal blogs, and video series can also help communicate what the innovation team is doing, so that business units aren't left in the dark. At BASF, for instance, an annual event called Inno>ent "brings together BASF innovators across the globe so they can share what they are working on, and connect with colleagues from different business units and functions." External partners come, as well. There are not just presentations about projects already underway, but short problem-solving challenges, where a project team from R&D "can present their challenge and get fresh ideas and expertise and

COMMUNICATION COUNTS
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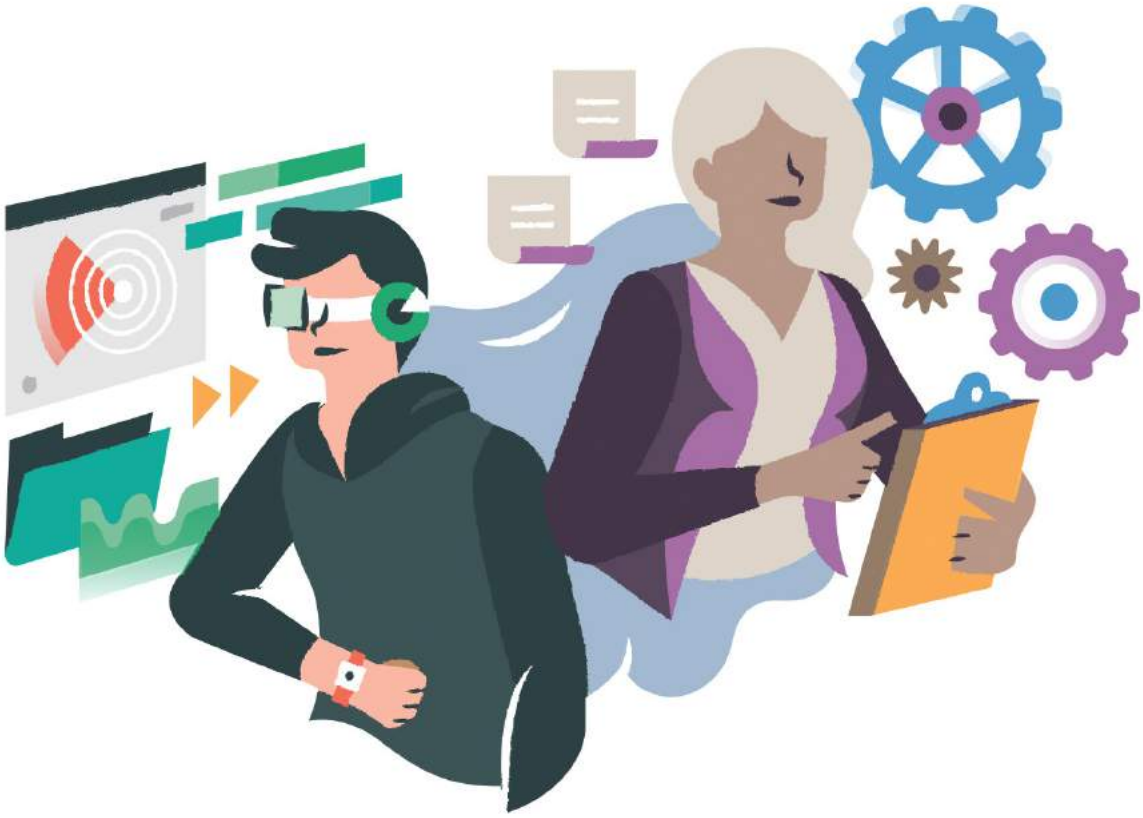


help from their colleagues," Dimovski says. "Often, colleagues from a different business segment will bring a different perspective and create an instant breakthrough."

One risk, in the linkage between innovation groups and the business units, is expectations that get out of whack. An innovation SVP from the apparel industry observes that "innovation is fundamentally a creative process, and you hit a lot of bumps along the way. You've got a lot of constituencies that may not really understand what's going on...Communicating clearly the risks, rewards, and things that can go wrong is difficult. It's easy to be overly optimistic, and over-promise about what can be delivered by when. Everybody wants innovation, but it's hard to deliver real innovation, and you must be really clear about that up front." Over-promising and under-delivering, this executive observes, "ultimately leads to companies abandoning innovation initiatives, and people not lasting long in positions."

CUSTOMER CONNECTIONS

Innovation teams often find they have to clear their own path to customers to get input into things they're building — and business unit staffers can feel territorial when that happens. So strong working relationships with marketing, customer support, and account reps who work directly with customers can supply valuable information about pain points, or early reactions to prototypes. That, says Dimovski at BASF, "can inform them about realities of customer aspirations and expectations. Good relationships are essential."

At a large Japanese electronics maker, the Executive Director of Product Strategy & Innovation told us that "picking the right customer to co-innovate with is a critical component to validating your vision." At BASF, some R&D staffers need to have "good relationships with customer service and support, and technical account managers so they can get immediate feedback from customers," Dimovski says.

Burns at Reliant says that for some innovation teams, "pet project" syndrome can suck up a lot of time and resources. "A business leader has an idea, and because they're in a decision-making capacity, people react and just go execute on that idea," he says. "The beauty of the way we have our process set up is that in the early stages, everything requires customer feedback. We need to validate the idea with actual customers, whether it's using the lean startup process and validating it with a minimum viable product, or doing actual quantitative or qualitative market research." That happens, he says, "regardless of whether the idea came from an executive or a customer service representative."

ACCOUNTABILITY AND METRICS

Business units are, understandably, metrics-obsessed, and they tend to be skeptical of innovation or R&D groups that have no metrics, or extremely nebulous ones. While metrics for discovery-oriented work will naturally be different from sales and operational metrics, innovation teams do need to have a set of concrete things that they plan to measure and report on.

"You need metrics to figure out if you're on the right track," says Tuoyo Louis, Managing Director of Zaffre Investments, a venture capital team within Blue Cross Blue Shield of Massachusetts. He often tries to get startups in which Zaffre has invested running pilots with business units inside Blue Cross Blue Shield. "What are the outcomes and what defines success and how are you going to measure it? If you're trying to improve associate engagement, or help people manage their blood sugar level, or you want a million people to download an app, those are concrete things to work against when you're launching something or running a pilot."

At Reliant Energy, Burns says that just identifying things that could be measured is a different thing from actually gathering data and reporting it regularly. "We've actually made it part of the process that you have to establish what the metrics are, who's doing the measurement, and how it's being reported, prior to launch," he says. "That feeds back into the process, so we all understand what the wins were, what the losses were, what performed above and below expectations, and what we can do to improve."

Finally, just as innovation and R&D groups ought to be accountable for supplying products and services to the business units that can generate future growth, the reverse should be true as well. Business units need to be transparent about what happens to prototypes and projects that are handed off to them for refinement, marketing, and launch. How much resources are they getting? Are timeframes being met, or do promising concepts keep dropping to the bottom of the priority list? Many companies measure the impact of their R&D and innovation efforts by tracking the number of new patents issued, or revenue from products and services launched recently. Those are important, but there should also be attention given to ideas that don't get sufficient support from the business units — and either never launch, or launch in a sub-optimal way. That creates hostility, and it undercuts all the funding the company is devoting to innovation or R&D. Often, it leads to the decline of these groups.

IN CONCLUSION

While we have seen examples of innovation groups operating at a distance from the business units, following the "skunkworks" model (one example we've covered is Lowe's, the home improvement retailer), most people we interviewed for this report hew closer to the "hand-in-hand" model that Scott Burns at Reliant discussed with us. "Working hand-in-hand has proven to be much more effective, in my career, than those skunkworks 'go away and come up with a magic box and bring it back to the business and have them figure out how it will best fit in.'"

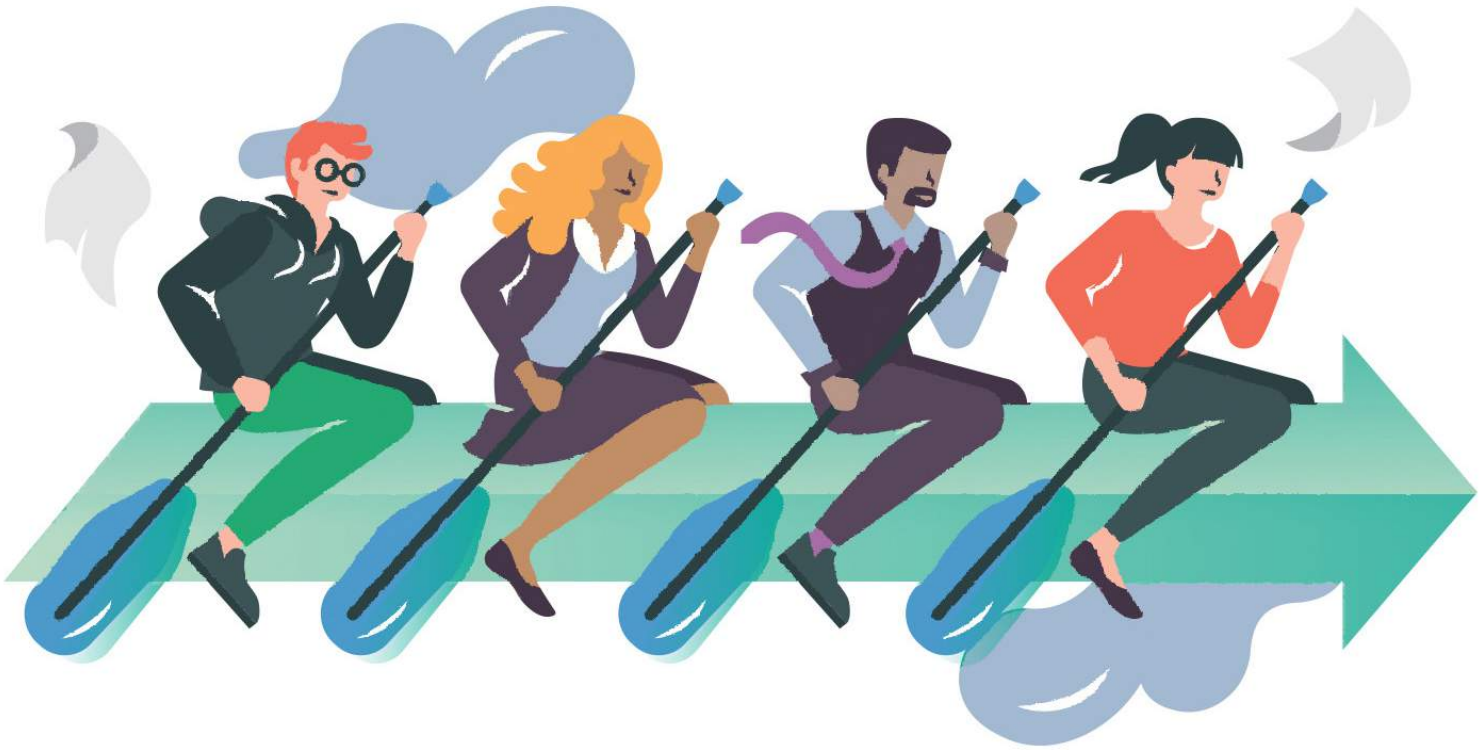
Lowe's, by contrast, deliberately built a network of innovation labs without planting one at company headquarters in Mooresville, North Carolina. Executive director Kyle Nel, who is based in Seattle, told us that "a real innovation group is not an incremental improvement team — and most are just that. The way we define innovation here is big, platform change. We're working on the problems that haven't arrived yet. My goal is not to impact next quarter." Call the Lowe's approach "insulated," the Reliant one "intertwined."

INSULATED, OR INTERTWINED?
"A real innovation group is not an incremental improvement team," says Kyle Nel of Lowe's. "Most are just that."

Snellgrove at Johnson & Johnson highlights three areas that he calls critical to success: "your governance process, your funding mechanisms, as well as your approach to the transition from your innovation group to the mainstream business units."

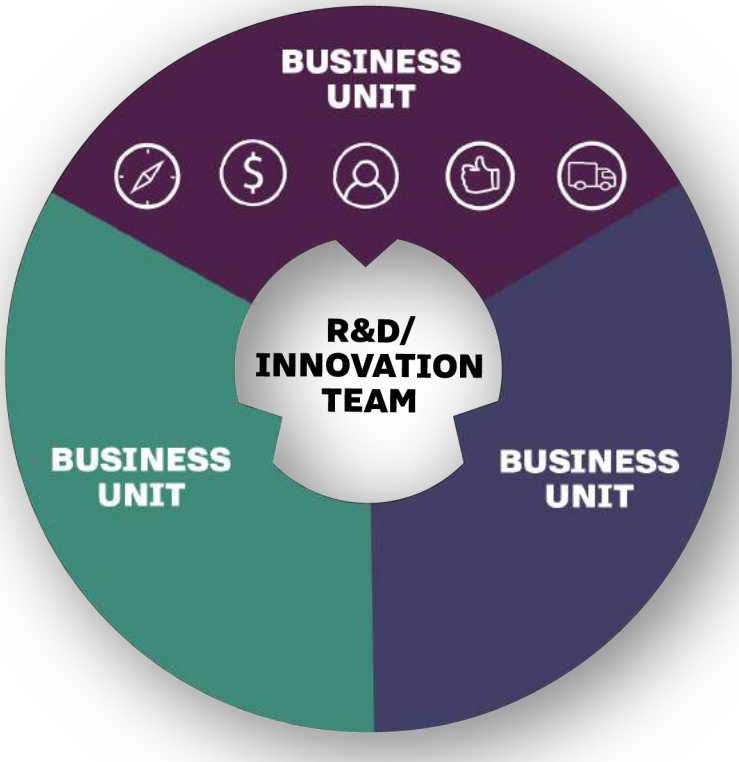
Mohan Nair, the Chief Innovation Officer at Cambia Health Solutions, observes that the relationship between innovation groups and business units is very much a two-sided relationship — both sides need to invest in it, and feel they're benefiting from it. His quote from a 2016 article written for Innovation Leader still resonates: "Your program's scale depends on the business unit leadership's trust in you."

To achieve real impact over time, business units and innovation groups need to create and sustain that trust.



THE INTERTWINED MODEL

With this model, the business units and innovation/R&D teams work closely together on direction/agenda setting. Some or all of the funding comes from business units, people flow back and forth, and business units are involved with green-lighting and deployment of projects.

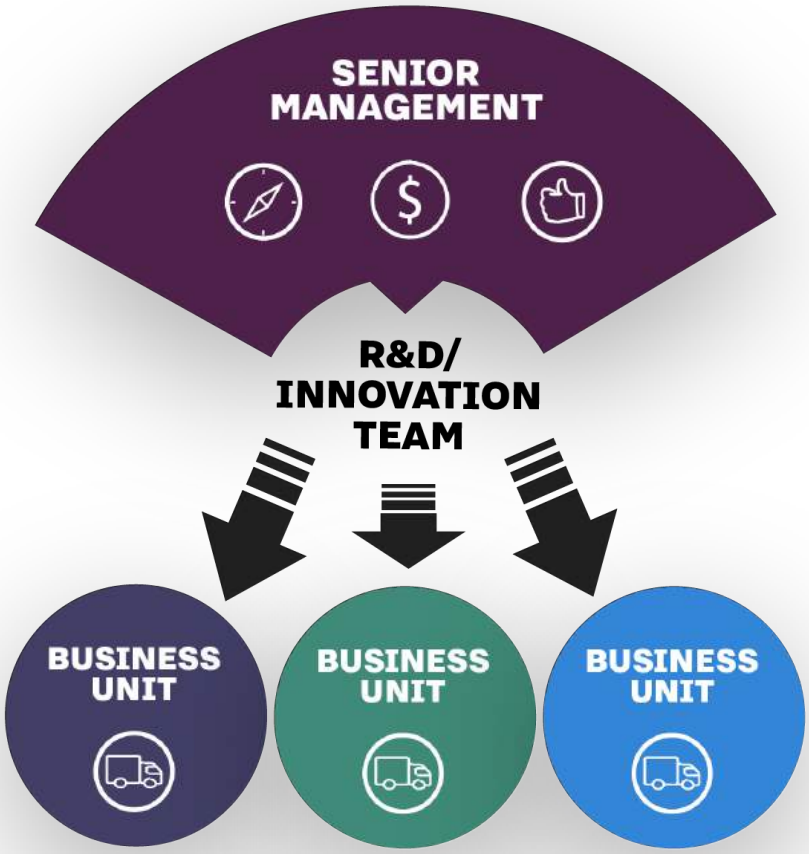


PROS

- Creates good alignment and communication
- Leverages BU expertise and resources

CONS

- Tends to focus on near-term needs of the business unit



THE INSULATED MODEL

With this model, the innovation/R&D team gets direction, funding, and approvals from senior management, but is insulated from business unit concerns or demands. Even with this model, though, projects are typically handed off to business units for deployment—not always with appropriate levels of support.

PROS

- Innovation team has freedom to focus on big opportunities

CONS

- Can trigger 'organ rejection' when projects handed to BUs
- Projects may be challenging for existing BUs to market

“INNOVATION ISN’T A SEPARATE THING FROM BUSINESS. BUSINESS IS BI-MODAL: THE CURRENT BUSINESS AND EVOLUTION OF CURRENT BUSINESS...‘DISRUPT OR BE DISRUPTED.’”

Advice From Respondents

How do you ensure that projects don't die after the hand-off?

More than 125 of our survey respondents shared advice on how to keep projects from being under-resourced or abandoned when they move to a business unit for launch. We've categorized them, starting with the earliest phase of innovation/R&D work — identifying opportunities. Our favorite advice? It involves flattery and alcohol (see below.)

OPPORTUNITY IDENTIFICATION

"Innovation groups should work on projects that have a pull from the business unit."

"Get BU teams involved in the planning and status [reporting] of R&D projects — for example by providing the top 10 technology needs and giving applicable missions and access to [subject matter experts] within the BUs.

"We don't pursue a project if it does not have [business unit] sponsorship."

"Many times an advanced concept that is pushing the innovation envelope should not be viewed through the same feasibility [lens] as a core product line extension, which would normally have a faster payback."

"When R&D is working on future [product] features, business unit requirements need to flow upstream."

"Where possible, run with those projects that have a strong business need and demonstrable benefits."

PEOPLE, STRATEGY, AND INCENTIVES

"Consider an 'incubation' team embedded in the innovation team to work out the kinks before [a project] gets handed over."

"Make it a transition, not a hand-off. Bring business unit people into the innovation team before the hand-off, and send innovation people into the business with the project until the business team is ready to go."

"Bring at least one person into the project to be transitioned earlier, before the transition so that there is a period of time when both teams are involved."

"Find someone that is excited to champion the project, and help him/her set up appropriate incentive structures."

"Keep a liaison involved from the innovation lab until the effort is on firm ground."

"[The] incentive models of the core business need to incorporate introduction and scaling of new solutions."

"We need to have options — like restricted stock units or something else — that vest based on how a business unit picks up an idea, or how it gets capital funded. Now you're on the hook to give it to the business unit, get it funded, and go on. It may vest over three years, based on how it gets funded in the business unit, and how it's scaled. Now you have an incentive to pass it on. Our HR people asked 'Are we talking about dinner money? Are we talking about car money or house money?' I think it's more like car money, not necessarily house money, but it could go to house money if it's a big, huge project, and it's vested over two or three years. Without those kind of incentives, it's very hard to get the [talent] you want to bring in-house while competing against startups. We did it because we just needed to. We couldn't get the resources without it."

> **"Don't hand it off unless it is a Horizon I project that should go back into the business unit; otherwise [the BU] will have no incentive for commitment."**

PLANS, BUSINESS CASES, AND REVENUE

"Require a launch plan prior to project approval. Why do the project if you don't know how to launch it?"

"For sustaining innovation, early engagement and [a] gradual transition to the lines of business is helpful; for transformational innovation, keep the innova-

tion [team] autonomous until market validation is achieved."
"First, don't hand it off unless it is a Horizon 1 project that should go back into the business unit; otherwise [the BU] will have no incentive for commitment."

"Work with potential customers early on, so that the business case will be a reality. If real revenue is behind [your project], business units will not let the project die."

STAKEHOLDER INVOLVEMENT

"Get lots of friends in the business units and flatter them continuously over lunch with beers."

"Get business and product leaders involved during the evaluation process. Give them a reason to have vested interest in the project. If they don't buy in at the start, what makes you think they'll buy in at the end?"

"Engage them as early as possible...ideally helping them feel like it's their idea."

"Involve the receivers of the hand-off early in the process. Have them define and agree to the deliverables, and agree [on] when they've been [successfully] delivered."

"We [in R&D] work jointly on the project in its last year [with the business unit], and then the business unit takes over post-launch. The 'go' decision is owned jointly, as is the metric for in-market success."

"Make sure the core business units have accountability for actively evaluating new solutions that are adjacent to the business. From both a departmental standpoint and the vantage point of individual goals and bonus structures for senior decision-makers, people must be motivated to encourage active investigation. Discontinuous change is not going to necessarily [be reflected in] the metrics that are more common in 'business as usual' evaluations; the incentive and goal structures must account for this."

"Make [business units] co-invest from the beginning. Get skin in game."

"Involve the supply chain earlier in the project."
"We don't allow engineering-led projects without business leadership involvement (like a business development manager who stays with the project from the start through the hand-off.)"

"We own these projects together; there is no 'hand off.'"

PREPARING TO LAUNCH

"Make sure projects have reached a stage where the receiving business unit deeply cares, because you have created a compelling opportunity, signed up committed customers, etc. Just [creating something] 'interesting' is not enough."

"[You need to achieve] alignment with operational owners about the full cost to implement [an idea], and maintenance resource needs [once it is in the market]... Tactical run-the-business issues can often put hand-offs on the back burner."

"Include a 90-day dual team transition time (or longer if needed)," when both R&D and business unit staffers will be collaborating.

"Set the proper expectation on the value of the project and impact to the overall business unit."

"Innovators [need to be] really good at transitioning and giving the baby to somebody else. The baby is going to have a great life — but you have give up the baby. The business unit will have more money to scale the business."

"Get lots of friends in the business units and flatter them continuously over lunch with beers."

MARKET LAUNCH & POST LAUNCH REPORTING

"If necessary, handhold the BU adoption/deployment to ensure success."

"[Do] small-scale launches [initially], with the full support of the R&D team."

"Stay engaged after hand-off. Help troubleshoot

issues that come up."

"Hand-offs don't work. It needs to be a transition, with the business unit involved during the end of the R&D period and the innovation team staying on [to serve] as consultants during [the] start-up [phase]."

"**Clearly define launch/growth metrics, and have both R&D and the business unit agree on them.**"

"Responsible line managers hold regular meetings, and report [progress] back out to larger group. MBO adjusted to increase probability of success."

"**We have not been successful when new solutions are 'thrown over the wall' to the BU for deployment.**"

"For projects requiring a certain level of capital investment or that have specified certain levels of revenue generation or cost savings, conduct look-backs at regular intervals to gauge the success of the project's implementation, as well as a financial return."

"**Constant follow-up is required. Both my internal and external innovation teams keep a pulse of projects that have been handed off.**"

OTHER PERSPECTIVES

"There's no such thing as a hand-off. There may be an extended handshake — contact that allows for a long gray zone in transition."

"**Celebrate innovation successes. [Develop] metrics / targets that [show] you are growing your market share with exciting new products. Sexy sells!**"

"With the prevalence of siloed organizations, hand-offs are the biggest risk to innovation."

"**Every company and project is different, but one consistent experience is the underestimate of time, effort, sponsorship required for a successful hand-off.**"

"Most companies [would benefit from] stronger sales and marketing execution, and smaller iterative market testing to refine [their ideas.]"

"**Set shared MBOs and outcome KPIs across BUs. Develop a self-funding mechanism for the effort into perpetuity. Assign clear accountability to a single executive.**"

"You need to develop a business model that does not rely on existing BU support to survive."

"**Having passionate, visionary leaders from the core business involved early seems to be an important driver. A culture of innovation and real incentives seem to part of the formula as well.**"

"It's tough. If you involve [the business unit] too early, they kill anything innovative. If you involve them too late, then you get 'organ rejection.' We haven't figured it out really as of yet."

"**Innovation group has to not act like it sits in an 'ivory tower,' with no understanding of how the company actually runs, and what it's good at.**"

"Innovation isn't a separate thing from business. Business is bi-modal: the current business and evolution of current business (which can cannibalize the current business if needed.) 'Disrupt or be disrupted.'"

"**In my experience in large and medium sized companies, it seems that substantial senior leadership sponsorship all the way through the process is required. Although I hope this is not really the best answer. I would like it to be that more trust and empowerment among groups and teams would be the ultimate way for this to work; I have just not personally experienced this yet.**"

"The innovation group has to not act like it sits in an 'ivory tower,' with no understanding of how the company actually runs, and what it's good at."

"Make business units responsible for innovation, so there is no 'hand-off.'"

"**The road to success goes through the C-suite. Communicate regularly with both [senior leadership] and business leaders so that BU leaders will be questioned if they squash the project.**"

"You have to be position yourself as equal, and earn that position, as opposed to being seen as just a free resource available to the business units."

CASE STUDIES

21 — Northrop Grumman
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Northrop Grumman Exec on How Innovation, R&D, and Business Units Can 'Increase Awesome'

How do you build innovation muscle in a company already known for having serious R&D brawn? That's the challenge at companies like Northrop Grumman, which have historically relied on research and development divisions to supply breakthroughs for customers — but which want to find ways to innovate in other parts of their business, and make the overall company culture more accepting of blue-sky thinking and experimentation.

On a recent IL Live conference call, Kevin Parsons, the Director of Innovation and Transformation at Northrop Grumman, joined us to explain how his innovation group is influencing the culture and bringing business units into its process — without antagonizing the R&D folks.

Parsons has been at Northrop Grumman for 19 years, and he leads multiple change initiatives at the company, working closely with executive leadership to develop an environment and the capabilities to transform culture and drive breakthrough innovations. Northrop Grumman, with $23 billion in 2015 revenue, talks about its mission as "preserving freedom and advancing human discovery," and among its products are the Global Hawk high-altitude drone, the James Webb space telescope, military radar, and cybersecurity software and services. (It's also the company that developed the lunar module that carried Apollo astronauts to the moon.)

Parsons sometimes uses the phrase "increase awesome and decrease suck" to describe what his innovation team strives to do. "We need innovation everywhere," Parsons told us. But "innovation isn't limited to new technology and product innovation, although we like to focus on those. We need innovation to both get us new technology, new products, new business — that's the increased awesome — as well as to drive affordability and efficiency and eliminate bureaucracy, and that's the decrease suck."

INNOVATION AT NORTHROP GRUMMAN

[Innovation at Northrop Grumman] reports into our Global Operations Group, [to] a specific team in Global Ops that is focused on change initiatives of various types.

We've only been [reporting to] this team for one year. The innovation initiative has been going on for three years. This is the third business unit that it is in. We were originally aligned with the business development functional organization, with the intellectual property group. Then we moved into the Engineering and Global Product Development organization. Now we're in Global Operations. You may ask, what are the reasons for all those changes? It really comes down to aligning this initiative with the business leaders in place that were most passionate about making this happen. When you start a fledgling initiative in a large company, you want the leaders to be fully supportive and behind what it is you're doing. We've aligned the passionate organization with the passionate people. That's been a successful alignment.

The secondary benefit of that has been there are now multiple large organizations that feel a personal sense of ownership and deep insight into what we're doing. It's multiple people's baby. As a result, they're more supportive... One thing you may have noted is that none of those three organizations was our R&D organization. That's actually been asked internally: "Why wouldn't innovation be in our R&D organization?"

Our R&D group is called NG Next, and that group is focused around four key areas: basic research, applied research, advanced design, and rapid prototyping. Their focus is on next-generation technologies and systems, not so much on the follow-on systems or enhancements or upgrades to our current contract.

The way I like to say this is [that] NG Next is filled with full-time innovators. They get to do innovation all day long and are expected to. My team is more focused on innovation for everyone else, for the more than 20,000 other employees who have great ideas and want to make a difference, and for the other business units who actually need innovation to drive their business outcomes, and we become a partner for them in that process. My group helps connect innovators and the business challenges together to make magic happen, and the R&D group is focused on some very specific full-time things to drive some of those next-generation technologies.

INNOVATION AND R&D WORKING TOGETHER

It's really important that companies' R&D groups and innovation groups work together. Let me summarize a few tips I would have along the lines of

INNOVATION FOR EVERYONE ELSE
"My group helps connect innovators and the business challenges together to make magic happen" among more than 20,000 Northrop Grumman employees, says Kevin Parsons.

what has made us successful working together.

First of all, we don't set ourselves up as competition for the R&D group. I think that's really key. When it comes to discretionary funding, it can't be a battle between the two groups for the same pot of money. By nature, you tend to be adversarial.

Second is establishing clear roles and responsibilities. It's really important to play to each team's strengths, and don't try to do the same things. What is the R&D organization great at? Let them do it. In our case, we're having our innovation organization create value elsewhere, and letting R&D focus on what they do. We're working together on a broad strategy for how to drive innovation, invention, research and development. It's a joint effort, which allows us to both get behind it.

Our innovation initiative, our innovation group, is about supporting the business, not setting up an empire. This is really critical, because I feel strongly that the innovation team needs to be about making the business successful. Innovation is a means to an end to achieve our overall business objectives. As such, we use innovation to enable business success, which will benefit all groups — including the R&D group. What this looks like in our company is, the innovation team casts a wide net for ideas to seed fund and develop, but we always partner with the business units when it comes to evaluating the ideas that come in, and selecting the ideas we choose to incubate and seed funds.

Then we end up handing off the most promising ideas back to the business units for monetization. So it's a partnership throughout the whole process where everyone wins in the end, because it's the business units that end up moving it forward to make it happen. Back to R&D specifically, I view the innovation team as a source of internal people and projects that can help make them successful. In the case of people, we've been able to discover a lot of under-utilized talent, [where] actually it would probably make more sense for them to be full-time innovators. As such, we've had at least three employees who have been identified through our efforts and have already transitioned to working full-time within NG Next, and so R&D is gaining direct value through the projects and the people that we're funneling to them...

DRIVING INNOVATION IN ESTABLISHED CULTURES

Our founders in Northrop Grumman, of all the companies that Northrop Grumman is a conglomerate of — Northrop, Grumman, TRW, Ryan Aerospace, and a number of other companies as well — were all innovators and inventors. Every one of them had at least one patent.

That's our roots. We all started that way. They were notable engineers, not big businesspeople. However, as with many businesses, the focus shifts over time to operational efficiency, and innovation as a core value is minimized. In our business, the notable exception to the minimization of innovation is in new contracts and where we're looking to meet specific customer requirements. I call this "innovation by necessity." You have to innovate in order

THE BUSINESS UNIT'S ROLE
"We end up handing off the most promising ideas back to the business units for monetization," Parsons says. "So it's a partnership throughout the whole process."

to win a contract. You have to innovate in order to get the cost down to execute the contract. It's the urgent need that creates the necessity for inspiration and the spark for innovation. That's always been a hallmark of our success.

What I consider our real challenge on the culture side — and a lot of companies have this — is to drive innovative thinking and behaviors outside these traditional silos, outside these traditional hard needs, and not just have innovation by necessity, but make it part of our thinking at all times on all fronts. This creates a very different culture, and one that we want, where innovation is truly part of our DNA, and everyone benefits from that type of thinking.

[How do you measure success?] The truth that's in my mind as to whether the culture has shifted is whether there's change in the trenches where the core work is getting done — in our case, on the aircraft production line, in satellite design reviews, in financial planning meetings, and maintenance. This is really tough to measure. Fundamentally it comes down to whether employees feel a new sense of comfort with sharing an idea with their team. Perhaps one that they are not sure is very good, but the environment, the culture, encourages and welcomes those things, even to the point of expectation. "We expect you to be sharing ideas. We expect you to be constantly giving us thoughts about how to do things differently or better."

Do you ever look at something and say, "There has got to be a better way?" The question is, is the culture creating the pull for you to take it the next step, and come up with a better way, and empower you to quickly try it. And it's OK if you fail. A second point is there's a lot of research that indicates that a greater mixing of people outside their normal teams — and this is both internal to a company as well as external — is a real key to innovation, because it brings in diversity of thought. We're looking at multiple things like leader training and creating environments, including services and our workspaces, that will help drive the mixing between groups and will allow for behaviors to change and new habits to form that will most impact the driving of the day-to-day innovation happening across our organization.

COMPETITIONS & CHALLENGES

This has been a really exciting year, because we have two really big internal innovation competitions that were really well-received by employees and leaders alike. The first one is based on the "Harry Potter" game of Quidditch. It was actually inspired by our president, who said, "I would love to make the Harry Potter game of Quidditch a reality by quadcopter" — autonomous robotic Quidditch. We've created a whole internal competition that we call Quad Cup, and it'll be a multi-year competition. This is year one, where we're taking elements of the game and trying to autonomously— robotically, in the quadcopter— have teams work to bring that game to life. That's been super fun. Mostly in people's free time, on weekends and on nights. Hundreds of employees have participated in it and just geeked out over it. It's wonderful.

The second thing, which we're in the middle of right now, is called the Wildlife Challenge. We've partnered with the San Diego Zoo Global in order to develop capabilities to help them with longer observations of habitats for endangered animals. We held a competition similar to Quad Cup for our employees to develop specific capabilities for monitoring ice floes around polar bear habitats to help them with their research. As a matter of fact, the winning team recently arrived in Churchill, Manitoba, Canada to test their vehicle.

We also do smaller hackathons through our makerspaces, and there's a YouTube video on our Northrop Grumman channel about a recent one where we helped a local artist regain his [ability to make] art through developing devices that could help him, because he has muscular dystrophy and has been deteriorating significantly.

INCREASING AWESOME & DECREASING SUCK

This is my way of saying that we need innovation everywhere— that innovation isn't limited to new technology and product innovation, although we like to focus on those. We need innovation to both get us new technology, new products, new business — that's the increased awesome — as well as to drive affordability and efficiency and eliminate bureaucracy, and that's the decrease suck. I say that just to bring people back to the fact that innovation can affect every single thing we do, and we care about it all and we want to improve it all.

MAKERSPACES & INNOVATION LABS

We just finished year three [of our innovation initiative], and in the very first year we set up a makerspace in Redondo Beach, California, which is the headquarters of our group called the FabLab, which stands for fabrication lab. This was really created by the people for the people, but it's bringing huge value to our business. The rules of the game are, you get trained and you can use it anytime you want for work or personal use. We pay for the materials. The space has 3D printers and metalworking and woodworking and electronics workbenches — the machines you need...for rapid prototyping. We have internal research and development efforts, contract research and development efforts, and so it has created this great swell of support, with our core

business saying, "Oh, it's so great having access to this for our users," and then the people can also say, "Let's just put together a project team to do whatever we want."

It has been a wonderful environment for this mixing of the people to create this culture of innovation, but then we also have seen a number of side benefits as a result of this. There's also been tremendous increase in learning and training in these machines. Many of our engineers that do a lot of design work don't have a lot of experience in building and making things. Basically they go in there, they learn about this for fun, but then it can influence their effectiveness in their day job, which is a very powerful lever. Then people who know how to do things ... now have a forum and an outlet for teaching other people what they know, which is another great way of knowledge-sharing within the company.

HOW TO FIND YOUR INNOVATION CHAMPIONS

We've found that [innovators] largely reveal themselves. We have what's called our innovation pipeline, which is crowdsourcing for ideas, and we find certain repeat guests over and over again that submit constantly. Therefore, we get to know them and know the quality of their innovations. As we fund projects and move those forward, we get to know people in a totally different way.

This is where we discovered some of this hidden talent. There's a second way we've done this as well. It was at least in part inspired by the book "Creativity, Inc.," where this group [of Pixar executives] called the brain trust is described. We have a brain trust as well, and it was essentially innovators nominated by other people at the company. We have almost 2,000 people on an e-mail list that have signed up to get regular updates on our innovation website. We went out to those folks and said, "Who are some great innovators you know that exist with these attributes that we can call upon periodically to come in and bring in diversity of thought into teams, [and] to help solve problems among our various business units?" We received like 500 names submitted that way.

AVOIDING THE "NOT INVENTED HERE" MENTALITY

Over the years, we've identified really great thinkers that are trusted people within each of our major business units that we know get the value of innovation and can speak on behalf of their organization, but be supportive of our efforts. They're part of the review team. All of the ideas that come in, they're part of looking at those ideas to see if they have the potential of making us money or saving us money. Then we have that internal partner that's part of that business unit that can be the conduit for an on-going partnership, as appropriate, depending on the type of idea it is.

Immediately, even at the early seed funding stages, we actually assign a project mentor or a project champion from the business unit — the group that we believe will be the business unit to eventually adopt and monetize that project... That's been a key part of our success, because they're part of our project throughout the whole thing, helping to shape it. ...Instead of it being a push, it's a pull, from the business unit, because they've had a hand throughout. That early partnership was really critical. The other half of the equation that I think is really key is talking to the business leaders in advance about what their hard problems are, or their unsolved problems are, and really focusing challenges and crowdsourcing around those that are specific to their stated needs and desires, and then driving those solutions back to the business through a partnership. Those two elements are really critical to the success of partnering effectively and doing this hand-off effectively.

DRONES WORKING FOR WILDLIFE
A Northrop Grumman partnership with San Diego Zoo Global is exploring the ways drones can be used to monitor the habitats of endangered animals.

How new CVS digital lab proves value and collaborates with business units

At our Boston Field Study in 2015, we dropped in on CVS Health's new Digital Innovation Lab and met with Chief Digital Officer Brian Tilzer.

After the group toured the lab and got demos of several lab projects, Tilzer sat down with Chris Johnson of Innosight to discuss why the $139 billion retail and healthcare giant set up the facility; how it connects with teams at CVS' Rhode Island headquarters; how they set priorities; what happens when projects don't pan out; and his thoughts on mobile payments, videoconferencing and collaboration, and in-store Bluetooth Beacon technology.

THIS IS NOT A STAND-ALONE BUSINESS UNIT

A lot of this lab is really to help CVS connect with the outside world of innovation — the investment, the talent, the energy, the ideas — and bring it into a company as big and as complex as ours.

I'll give a little context on digital at CVS and then the lab will make more sense. I'll tell you what it's not: what we're not trying to do is create a stand-alone business unit called CVS Digital Inc. I am not the president of CVS Digital Inc. I'm not driving towards a P&L that gets reported separately from the rest of the enterprise. A lot of big companies have been down that path. That's not what the idea is for us.

We think digital is a catalyst for disruption and change in an industry that really needs it. Healthcare is changing in this country. Historically, it was centered out of the hospital in the big urban center. Doctors told patients what to do and patients were supposed to comply.

Digital has turned both of those things on its head. CVS has as well, which is basically taking healthcare closer and closer into the community. Digital is going to bring it into the home. It's also putting the patient in control, in a way that wasn't possible before.

We want to be at the forefront of that. Our mission is putting people on the path to better health. I'm sure everybody knows us as the drugstore on the corner. We are that, but we aspire to be a lot more than that. We have an array of healthcare and pharmacy products and services that is really unique. Digital is ultimately about making [healthcare] much more accessible, convenient, [and] proactive for the consumer. Orchestrating all that we do around the mission of making someone's life and healthcare situation easier to manage.

I've been with CVS for about three years. We started this focus on digital then. Our initial initiatives were much more internally-focused, putting in place the enabling infrastructure and capabilities that we just had to build ourselves [such as a web services infrastructure that allows Tilzer's team to plug into many other legacy systems at CVS.]

RATIONALE FOR CREATING A NEW LAB

Then, as we thought about how do we move forward and create this vision of really transforming our company and healthcare system, we said we couldn't do it by ourselves.

We needed to become much better at harnessing the talent, the investment, the innovation outside of CVS — connecting it and bringing it into our ecosystem to invent things that wouldn't be possible for us to do by ourselves.

We thought we needed an office that was about engaging and partnering with promising younger companies, and also mature companies as well. [We also needed] the ability to rapidly prototype and bring to market and iterate and co-innovate, to figure out how these new technologies could be relevant to our business, to our customers, and ultimately be incorporated into our business model.

We decided Boston would be a great location for that kind of lab, at a really neat intersection of all the technical innovation going on in Cambridge and the teaching hospitals right down the street. We've been at this now for about six or seven months.

LONG-TERM INNOVATION VS. SHORT-TERM RESULTS

[Within] big companies, you need to embrace some paradoxes. What I mean by that is on the one hand as human beings, as senior leaders, people want to be inspired by a purpose. We needed to create that big, bold vision of what digital could be.

Is digital just about selling Tide online, competing against Amazon at CVS? Is it actually something bigger? [For us, the] purpose is helping millions of

OUTSIDE CONNECTIONS
"A lot of this lab is really to help CVS connect with the outside world of innovation—the investment, the talent, the energy, the ideas—and bring it into a company as big and as complex as ours," says Brian Tilzer.

people live healthier lives by making healthcare and pharmacy more accessible. That's something we believe in. That's our guiding light.

Then, we're a publicly-traded company. How is it that I, as the senior leader of the digital team, is getting every last investment dollar channeled, so [our] talented people can actually go to work?

The way we do it is by generating impact and showing momentum. This notion of [having a] big, long-term vision, but also then building momentum and getting a snowball rolling downhill is the most critical thing we've had here. Without the vision, people would be saying, "Well, geez, how are you guys going to beat Amazon in selling Tide?" The answer is, we're not.

Without the short-term stuff, [what you are doing is] nice in theory, but how are you contributing to the quarter? As much as we want to be a healthcare company, we still have so much retail mentality in our culture that will be there forever.

PROVING THE VALUE OF DIGITAL INITIATIVES

How is it that digital has value? If I put a million dollars into something in digital, how does that translate to [our] financials improving? "Prove it to me." That's something we worked really hard at.

We now have a very precise model of, if I do X digitally, it translates to better medication adherence, which translates to more [prescriptions], or it translates to a customer who's self-servicing for things that they might call for... It's eliminating workload in our stores. Those kinds of models and those kinds of linkages are something that we've worked really hard at establishing.

We talk about moving from hypothesized value to proven value. The first couple years, we made statements like, "We believe if we actually get people to do X, Y, and Z, it will generate this number of [prescriptions.] Here's our assumptions." Then we said, "Give us a year to actually show that correlation." We showed the correlation, and we actually delivered the work. You deliver the work, and you deliver the outcome. You start getting some credibility with the management team. I think that's point one.

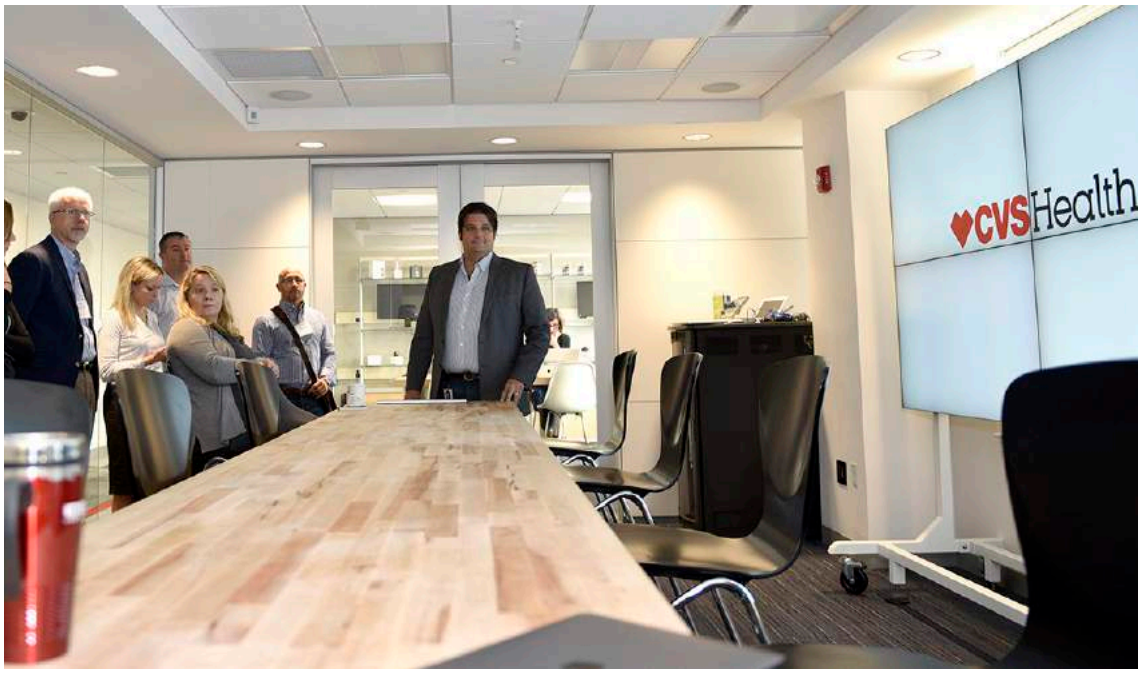
The other thing is the collaboration model. Our vision for CVS digital, like I said, isn't a standalone business. We're trying to weave digital into every aspect of our operations and business model.

RELATIONSHIPS WITH THE BUSINESS UNITS

In order to do that, we can't do anything alone. We can build websites alone but, to have digital transformation have impact, we [have to build relationships with business units so that] ultimately, the head of our pharmacy business in retail is saying, "I believe in what this impact is going to be. It's going to hit my budget on this line item."

This is where it's tricky. We're an enterprise organization. We report our results in terms of retail versus Minute Clinic versus Caremark. The reality is we have about eight discrete business units even within that. Each of those different teams need engagement and need partnership.

We're organized [so that] we have a set of capabilities, like our lab, that work across the enterprise. Then we have business-unit-aligned teams that



RESULTS MATTER
"You deliver the work, and you deliver the outcome. You start getting some credibility with the management team."

become extensions of the management teams in each of those areas, to ensure that we're working on the stuff that creates value that ultimately shows up in the P&Ls across the businesses.

I think it's been those two things — the collaboration with our partners, and the correlation to impact, that has been really important.

LINKAGE BETWEEN THE LAB AND HQ

When I was interviewing for the job, I did have the conversation to say, "Hey, guys, if I were to come back in a year or two and say we're going to need to open an office [in Boston or the West Coast], what's your reaction to [that]?"

I was making sure they were open to listen. If I had gone in [after] my first three months here and said, "Guys, we need to open a lab in Boston. I'm going to have 100 people located 60 miles from the home office. We're going to be in probably some of the most expensive real estate in the company. It's going to have an innovation lab," I think I probably would have gotten a two-by-four taken to my head, in a nice corporate kind of way.

Timing's everything. This group had to demonstrate we could deliver impact, and we could deliver impact through and in partnership with the business units before there would have been that kind of will. I think that's the foundation.

The trick then is, how do we have independence and also continue to work with the business units? I think everybody who is working out of this lab is spending time in Rhode Island at some frequency. That's part of it.

We're getting better at the virtual thing. Within my team, I'm a pest about being accessible by Jabber [the Cisco videoconferencing and collaboration software], so we can do face-to-face. I know that when someone's on the phone with me, they're not doing their e-mail or I'm not doing it.

When you're working with the Minute Clinic digital team, that's one thing. When you're working with the [rest of the] Minute Clinic team, a lot of face-to-face [at headquarters] is important. That comes with the gig. I think that's an expectation we try to set with everybody.

STAFFING THE LAB AND TRAINING LEADERS

We've selected people that we think can be both innovative and creative, but also understand what it would take in the bigger company to get stuff done. I put my entire leadership team, directors and above, about 50 people, through a course called "InterActive Leadership" with Burnham Rosen. It's a great framework to think about an interactive model for leadership. That's a big investment we made...to try and build those skills. We've hired people from some of the biggest digital shops. Someone in the back row joined us from Sapient. We've hired people from Google. [Our CEO has said that in the past, CVS] tried to hire "ringers" from other retailers. How do you figure out which ones can be successful at CVS?

I think the big thing is really the organizational integration. No matter how hard we try, we are not going to be the fastest company... We've got to get faster, but we're never going to be the fastest.

What we have to have is people who are inspired by the platform that they can work on. This is a platform where your ideas, when they hit, we [have] a million customers in our stores every day. We can drive 10 million downloads [of] an app just by making it a priority. The scale and the impact is really large, so the people who've been more successful are the ones who get excited about that, and are willing to invest the energy to integrate.

DOING THINGS FASTER

The way we started this lab was [that] it was sort of directed innovation. I established a budget that said, "Here's how much work we will invest." It's things that are not necessarily clear-lined to be return-generating this year, or maybe even next year, but are important.

Some of the things [we do here], like the notion of allowing someone to easily identify themselves and authenticate themselves [on a mobile device] is so foundational to a business like ours. We also want to be personalized in our retail business.

We said, "You know what? That's something we're going to do." We put up money, resources, and talent behind it to innovate, and to get traction going and get the process going. Now what's happened is the lab has proven to be, for certain kinds of projects, a better way to get stuff done.

Suddenly, people said, "Huh. I can get something done faster [by working with the lab] than through the old process. What if I wrote Mr. Vijay [Kukreja, Director of Strategy and Innovations] a check that says, 'I will let you go do this'" — by the way, he has an IT partner as well — "but we're going to do it the lab way."

What we're increasingly seeing is we basically have the two-tiered process. We have directed innovation, where Vijay, I, or others on the leadership team are saying, "This is important. We're going to invest behind it," but it's also becoming an alternative path to getting stuff done [for other parts of the business.] I think that the next step on the journey is going to be like, "Well, if it was a better way to get stuff done, why don't we change our core process?" In the directed innovation, a very small group of us

can be very top-down — driven around what has the highest financial value, customer value, and strategic value. [With] the business unit funding, we're actually [letting] the free-market work, which is to say someone's got money. They're excited about [an idea, and working with the lab.] Let's see what happens.

WHY WE KILL PROJECTS

I can think of an example where [we were exploring] a technology to recognize a driver's license and process it and use that as source of authentication. It was actually a vendor that I had identified initially. Through the rapid prototyping, it became pretty clear that the vendor didn't actually cut the mustard. In that case, I think that wasn't meeting our business requirements and we were able to cut it off.

We're still in the market for a connected adherence pill cap kind of device, [to monitor and remind people to take their medications.] We had a few concepts. We had done one skunkworks effort to try to build our own. I think the team, and I have to give Vijay a lot of credit, just said, "Guys, this isn't going to work," and just killed it. Probably, we're going to have to do a lot more of that as we get more mature.

ESTABLISHING PRIORITIES

Let me just explain the model that we have within my team. I have business digital teams that are aligned to each business unit within CVS. We have a whole digital business that's working every day with our merchants and the managers of the ExtraCare [loyalty and coupon] program. They're working on a set of initiatives to drive value and create more impact.

The innovation teams, then, are working first with the business unit. Through our business units we have very clear priorities. We're trying to make the way that our customers engage with the ExtraCare program, as an example, all mobile-driven. We're doing that through our digital business unit and a partnership with our loyalty team. The business priorities have been established.

I think the role of the innovation team is within the areas of directed innovation, where we say we are trying to explore X. [Our teams] become experts on how to identify a human being and get them registered, which is as important in a pharmacy business as [it is] with registering someone for a loyalty program. They're bringing in ideas [aligned to our interests.]

There's also a few projects [where business unit teams] are coming to the lab and saying, "Hey, we want to do something like this. We need your help in actually bringing it to market faster."

LOOKING OUTSIDE OF CVS

Our strategy is started with a commitment to being part of the digital ecosystem. That's actually a big point that has taken alignment-building within CVS. We just announced that we are partnering with Rock Health and MassChallenge, which are east coast and west coast [startup incubators.]

That's new thinking for CVS. [We also now have] a commitment to on-going dialogue with big tech companies that we have a lot of mutual interests with. [We also have] committed, on-going, regular [discussions] with five to seven [venture capital] funds that we think are particularly relevant to our space. We're going to announce in about a month our first strategic investment in a company that we're working with through those efforts.

THESE ARE THE THEMES WE CARE ABOUT

In terms of [our] approach though, the question has been, what are the spaces, the filters we're going to use to say, "Where do we focus our innovation efforts," and, "What is beyond the scope?" We worked really hard to say, "There are four themes that we care about. Within those themes we define them as X, Y, and Z. "I'll take digital health. That's one of the themes we're interested in. For those of you in healthcare, the [term] digital health is like a hundred miles wide. We could be investing in anything from the next Fitbit to information healthcare technology that hospitals use.

We needed to define which pieces of that space we cared about, and get aligned with our management team. For lack of a better word, it's a shopping list. Some companies go into this saying they want to have a fund in healthcare. I think Merck's very public that they [have a] venture fund. We're not in the business of being a venture company. That's not what we want. What we want is innovation. If the right way to pursue it is making investments in companies, then that's what we'll do. Here's what we offer and here's the pitch. To healthcare companies, what's unique is that we are both a retail pharmacy and we're a PBM [pharmacy benefits manager.] There's not another company where you can work with and have a scale of opportunity both in the B2B2C and the B2C spaces as working with us. I think that's a unique value proposition.

If you're a CEO of a pretty young technology company, why wouldn't you want your technology embedded in one of the few sectors of the economy that's actually growing very well? I think that's how we become unique, but at the end of the day, information flows freely. These things ultimately become

competitive.

THE FUTURE OF MOBILE PAYMENTS

CurrentC is a mobile payment solution that a bunch of retailers co-invested in to try to provide two things. One is the different phone manufacturers are creating their payment methods. [But we have] customers who are both Android and Apple users, so we like to support both of them.

The second thing is, bank fees have been something that have been really hard for retailers. The credit card industry [has] very few players with a lot of pricing power, and that has driven up very large cost increases.

We're trying to figure out the solution for both. We actually have the first market pilot of [CurrentC.] I think it's too early to read out on the results, [but] we're optimistic. I think in the world of mobile payments, uptake on any of these solutions is not measured in days and weeks but in years and years. We'll see.

I think the mobile payments space is going to be one that continues to evolve. Ultimately, I think consumers are going to want a choice, like they want a choice in credit cards. If you fast-forward five years from now, I suspect there'll be multiple solutions out in the market.

HOW WE WORK WITH CORPORATE AND MARKETING

We don't do the engineering work ourselves. We have a dedicated IT engineering team that works with us. Obviously there's a tension in terms of speed and agility, versus stability, and just how digital applications get developed — it is very different from back-end infrastructure. I think that exists in most companies. I think our corporate marketing team is ultimately the steward of our brand. I think they rightly see that the digital solutions we're bringing to market, and the rapid adoption we've seen, are actually the best proof points of our brand purpose that they've got. I think increasingly, you're going to see more and more of our brand media going towards supporting the digital message.

MOBILE DEVICES VERSUS IN-STORE TECHNOLOGY

I'm really excited about the mobile device because it's something that now 76 percent of the population has, and is using, and is comfortable with. There's so much capability that exists in that. We've made investments in things like iBeacon technology We've rolled that out now nationwide and we're using those. We're trying to add power to the mobile experience. We're still going to have in-store technologies that we invest in, but I just think that we're so early in the impact curve around leveraging these devices we're carrying around with us. I think that's more of my focus right now.

Why a 'Skunkworks' Didn't Work For Trek

One of the things that we've always struggled with is making sure we're doing the right research to supply the company with really innovative products of the future. We've gone through different organizational structures over time, with our R&D group. A few years ago, we went to a standalone, "skunkworks" R&D team. The struggle with that team was creating products that the business units wanted to buy. A few years back, we combined the R&D function into the business units, and to make the R&D resource as effective as possible.

We've asked the [teams here] to create five-year boards. What that does is it helps us map and predict the technologies that we'll need to fill in any of the gaps that we're seeing in those five-year planning documents.

What they really have become is more of a three-year planning document, and then a couple key people on the teams will try to fill in the last couple of years to predict where we're going. The boards are very fluid. The reason that boards are so important to the engineering and R&D functions is so that we can predict which technologies we need to develop to fill the holes in the planning boards.

When [the skunkworks R&D] group started, it started as an off-site department. They were trying to meet the needs of, "Let's go out and find, scrub the Earth for different technologies that we can put into our bikes, or different things that we can bring to the market." There was a gap in buy-in between when they developed a technology, and when one of the business units [said], "Hey, that technology is cool. Let's put it on our product." Or maybe that technology that they were developing wasn't quite fitting any of the directions that the product managers or business leaders were...going.

Once we pulled that group back into the business units, the buy-in comes instantly. The business unit itself is at least peripherally aware of the technology that's being developed. They're already bought into it. They're having their input along the way. They may not be the actual developer of the technology, but they're saying, "Hey, wouldn't it be cool if this thing would do that or this? I just rode one of these prototypes today at lunch, and it would be really neat if we could add this little thing to it."

People are getting their input, they're getting buy-in, and they're aware of different things going on. In other business units, as well, the sharing happens more real-time. It's not an after-the-fact type of thing.

CHAD MANUELL, DIRECTOR OF BICYCLE ENGINEERING, Trek

How Aon Health invites business leaders to help set the innovation agenda

Aon Health is part of Aon Hewitt, the human resources, consulting, and benefits administration firm headquartered in Chicago, with 35,000 employees. The company delivers healthcare and benefits solutions for employers, covering nearly 10 million current employees and retirees worldwide.

We spoke with Jim Winkler, the Global Chief Innovation Officer at Aon Health, to learn more about how business leaders at the company help to set the innovation agenda. "Within [our] business model," Winkler explains, "I lead a global team focused on innovating solutions that improve health and manage cost."

ORIGIN AND STRUCTURE OF OUR INNOVATION TEAM

We have had various forms of an innovation practice or team for the last five to ten years. But the specific iteration that I have responsibility for — which is really across all of our health-related businesses — we put this together two years ago.

Aon has several different healthcare-related lines of business – we provide services to employers, to consumers, to medical providers, hospital systems, etc. Prior to us putting this together, each business had its own product development function. They did their own market research and would create solutions, and I actually led that function for our healthcare consulting business.

What we were finding was three things that were not working effectively in that model, which is why we created our new model.

First, we [did] not always share the same foundational point of view. ...We were developing solutions based on points of view that were maybe not contradictory, but certainly not perfectly aligned. So we needed a centralized function that owned that thought leadership and point of view development, so that what we do in the market all ties to a common story.

The second [thing] was we were not optimizing our IT and product development resources. So we might need half a full-time employee to help on a project for one line of business, and half a full-time employee to help on a project for another line of business. Instead of having one person that could work on both, each line of business would go out and hire a person and we'd be semi-overstaffed. By creating this centralized innovation and product/solution development function, I'm much more optimized and can deploy resources a lot of different ways.

Then the third [thing was to be able to] really deliver solutions in partnership with third-party firms, and obviously, Innovation Leader follows this pretty regularly, there's a massive amount of venture capital flowing into healthcare, a lot of innovation, a lot of start-ups.

We would often be executing partnerships that would deliver a particular solution with the same vendor in multiple places in the organization. [We weren't] leveraging our scale, or [we'd] end up with competing partners in the same kind of category within health, which is then confusing to the marketplace.

So by centralizing this innovation function, we now manage a centralized approach to thought leadership, a centralized approach to the core product development function, and a centralized approach to how we manage third-party partnerships. My organization is not very big; it's really those core functions. One additional function is around data analytics to validate what we do.

BUSINESS UNITS LEND EXPERTISE, FUNDING

When we are building a solution, we go into the lines of business to extract the subject matter expertise that we need for a particular product for a particular point in time, and that line of business sort of loans us that resource. [They are] typically the line of business that's going to benefit from the solution that we're building.

So we borrow their people periodically. It's all done virtually; we don't have a lab or a specific location. They might be spread all over the country or perhaps globe.

[Funding] varies a little bit depending on the solution that's being built. If a solution is going to disproportionately support one particular P&L, then that P&L usually funds it. But when it's a broader solution that really [spans] across lines of business, we take a central approach to deciding how to prioritize and fund that, and then allocate the costs to lines of businesses as appropriate.

BORROWING PEOPLE
"We borrow people [from the business units] periodically. It's all done virtually; we don't have a lab or specific location."

Setting the innovation agenda

We [set the agenda] through an on-going process, on a monthly basis, and then [we have one] big annual [planning] event. This sounds very corporate and very tedious, but it works. We have a product governance committee that is made up of each of the core line of business leaders – each of their Chief Operating Officers — and then the product and IT folks that are on my team. We will literally talk through new things that have emerged.

We actually just had our [monthly meeting], and we were reviewing one new proposal, a new solution that one business unit wants to move forward with, and we were doing updates on three really big ones that we've been working on for months.

We came to the [realization] that we did not have the resources to start this new project, and part of the dialogue we had to have was, "Is that okay?" Obviously [it wasn't] to that particular business leader, as he wanted his thing funded, but we had to look at it in a broader context.

Ultimately, what we ended up finding in this particular situation was, if we slightly modified the scope of what he was looking for and got comfortable delaying a portion of one of our other big projects, we could fit it all in [the 2016] calendar year.

So, the line of business leaders have an important role in that discussion because obviously, they own the P&L, and they're the ones accountable for growth. They're mutually accountable to their own line of business growth and to the collective [Aon Health] business. It's a very tactical monthly conversation that we have.

Once a year, as part of our budget-setting process, we have a day-long innovation session. [There are a] whole bunch of steps that lead up to it, including a reformulation of our thought leadership and our point of view. We do a refresh of what's happening in the market, what should we be thinking about, and what solutions we need.

Then, [there's] a day-long session with our line of business leaders and a lot of our product executives, folks from IT, etc., walking through where we see the marketplace evolving, the competitive landscape. We have a person from our sales team spend an hour on what they're seeing competitively in the market, what our main competitors are doing, or where we are in the sales process.

Then, [we present] both our short-term product roadmap — the nips and tucks we need to do next year — and our big three, bet-the-ranch kinds of solutions that could take us a while to build. [We] ask, "Is all that stuff still the right stuff, based on everything else we just talked about, in terms of the external market view?" The line of business leaders are very vocal participants in that process.

How we define innovation

When we were putting this team together, I don't think I can put a number on how many hours we spent debating the purview of my function. Was it innovation? Was it product? Was it just "big I" innovation, or is it also "little i" innovation? And we decided it's both. ... Thinking about how to take that flavor of vanilla and insert chocolate chips in it, my team [does that.] Thinking about whether we should have a completely different dessert altogether instead of ice cream, my team absolutely owns that.

Maybe in the first part of that analogy, if the spoon breaks, the line of business has to get a new spoon. I'm not fixing that for them. We'll figure out the chocolate chips and then we'll figure out should you have a different dessert?

In the course of a year, my team of 15 or so people might touch 80-100 "little i" innovation things and our vision is that we have three to five "big I" innovation things going on at any point in time, ideally in a cadence where one of those "big I"s is going to launch next year, and another one is probably 18-24 months away, and another one is still very much in that concept testing stage and hasn't really gotten out of PowerPoint yet.

Examples of successful interactions

One of the solutions that we created in the marketplace that's very innovative is called a private healthcare exchange. It's a different way for employers to deliver healthcare benefits to their employees. We were the first in the marketplace with it four or five years ago.

We created a business unit around it, and that business unit became very focused on how do we protect ourselves as a startup in big Aon from kind of getting polluted, if you will, by everything else that's going on? So we built some artificial walls around it, and that really worked for a period of time, until the marketplace started to follow [what we'd done.]

Our competitors developed versions of a private exchange and ... that then caused us to have to take a step back and say, "OK, well let's look at this differently."

One of the key pieces to that is employers are interested in offering a broader array of benefits that the company sponsors, but employees might pay for themselves. It might be things like critical illness

BIG I VERSUS LITTLE I INNOVATIONS

"In the course of a year, my team might touch 80-100 'little i' innovations, and have three to five 'big I' innovations going on at any point in time," Winkler says.

insurance that you buy on top of a high-deductible plan, or legal counseling or pet insurance, these sort of voluntary elected benefits. That function within Aon sat in a different part of the firm, not in the consulting business.

By pulling our process together, we took the people that own those different pieces, the exchange team, our consulting team, some of our other product, IT, systems, and benefits administration folks together and said, "How would we create a different model where we could take our private exchange, which really serves the large complex employer, and bring it more down-market to the mid-size employer, where this elected/voluntary benefits piece is really important, and put all those pieces together into one compelling solution?"

So my team helped drive that, along with key leaders from each of the business functions. We launched a new solution we call our mid-market exchange last year, which came out of that process.

We take great pride in saying that the initial product version was actually built before the Affordable Care Act was passed, and like to say that the administration took the concept of the changes from us. It's not really true, but we had the first product roadmap for that back in 2009. And then we went live on our own population, or own employees in 2011, and then full market launch in 2012. It's a great example of a space where there was an absolute advantage to us being first, but that advantage has an expiration date, and we have to constantly re-innovate those solutions. It's interesting to say we were first, but that doesn't necessarily mean you're going to win the RFP today.

SPEED, BALANCED WITH GETTING IT RIGHT

If you were to ask our sales team, they would say we're not fast enough, and some of our clients would probably say [that too.] We try to balance that with competing priorities, which is always a challenge, and making sure that what we launch, we launch correctly.

We're more formalized and disciplined and structured in concept testing now than we were even a year ago. That adds a step to the process; it slows you down a little bit. But you get yourself away from [being] eight smart people in a room thinking each other are brilliant and therefore, the solution must be awesome, to, "We just ran that by 10 clients and none of them really liked it, so maybe it's not so awesome after all." Yes, it's an extra step in the process that can slow you down, but it allows you to make sure that what you launch is more effective and more compelling, and therefore, more likely to sell. So we try to balance [speed] with getting it right.

Building Trust and Relationships at Cambia Health

A productive working relationship with the business units has been a major challenge for many innovation teams and programs. Some people on the operational sides of the business may either resist your efforts to work with them, or feel threatened.

This is normal. An organization is an organism, after all, and the operational arm of a company must, like a skeletal system, be strong and rigid enough to deliver on the core business offering. Its purpose is different from the nervous system of your company — the network of intelligence that informs your strategy.

No matter the phase of maturity of your program, all of these systems must work together across the business to excel. The businesses we have built have transferred over to the operational side of the business at various stages of maturity. In some cases, they have moved over when they were little more than a business plan; in other cases, there was a live product, a dedicated team, active customers, and revenue. In all of the situations, the end of incubation and the beginning of operationalization requires close ties and coordination. I cannot say that we have always done this hand-off to my satisfaction; each time we learn how to do it better. But building trust in that hand-off is essential, and trust is the biggest indicator of how well it will go.

Your program's scale depends on the business unit leadership's trust in you. Your team might be staffed to execute on ideas you develop from employees, but it's unlikely you can have a transformative impact without business leaders taking on the responsibility for execution of ideas. We focused on building these relationships through a combination of tactics that propelled our success:

Servant leadership — My team treats all relationships as "servant leadership." Part of everyone's job is to serve the organization.

Challenges — We aim to ignite the organization through innovation challenges. For example, the innovation team ran an innovation challenge two years ago with just the leaders of the organization, requiring the submission of an idea from each leader. We then worked with those leaders to refine ideas, coaching those who continued on to each stage of our innovation challenge.

Ultimately, we had nine ideas for a "pitch day," and ended up incubating one as a new business with tremendous potential. But the real advantage of that process was more pervasive: My innovation team got to meet with those leaders, built trust, and nurture relationships that last to this day.

MOHAN NAIR, SVP & CHIEF INNOVATION OFFICER
Cambia Health Solutions

How business units get involved with J&J's network of innovation centers

Johnson & Johnson's innovation centers aim to be an interface between J&J's various business units — including pharmaceuticals, medical devices, and consumer healthcare — and the world of startups and academic research institutions. The goal is to spark new collaborations, and sometimes investments, that will lead to new products that J&J can deliver to patients.

We spoke with Darren Snellgrove, Chief Financial Officer for Johnson & Johnson's network of innovation centers, to learn more about how the centers and business units work together.

WHAT WE DO

J&J has three sectors: pharmaceutical, medical device, and consumer, and the innovation centers are one of the few places where those three sectors come together. At J&J Innovation, we've invested in some exciting areas across all three sectors and we're seeing a lot more convergence.

General areas of investment include immuno-oncology, robotic surgery, 3D printing, gene therapy, the microbiome, wearable technologies, and light therapy for aging and acne. The consumerization of healthcare and the wearable space will have a big impact on healthcare. Wearables, for example, can provide diagnostic capability, continuous monitoring, caregiver interaction, and increased patient and physician interaction.

HOW BUSINESS-SIDE EMPLOYEES GET INVOLVED

The model is one where we actually put the scientific and technical experts from J&J strategic areas of interest in the innovation centers. So it's somewhat unique. We've done that to make sure that there's absolute connectivity back to our R&D organization, which works side-by-side with our commercial and business unit partners.

We've found this to be a pretty effective model, because it reduces the risk of doing off-strategy investments, and it speeds up the deal process because we are in direct communication.

That's something that's really important for us, particularly when you're working with smaller companies and entrepreneurs where every second counts, and they don't have time to wait six months for a large corporation to make a decision.
We have one innovation center located in Silicon Valley, California; another one in Cambridge, Massachusetts; one in London, which is our hub for Europe; and then another in Shanghai.

HOW WE COLLABORATE WITH STARTUPS, ACADEMIA

...A lot of the easy challenges in healthcare have been solved already, and we know that our scientists can't be heads-down in a lab and come up with a cure for Alzheimer's on their own. They've got to be working with the best and the brightest entrepreneurs, academics, small companies, and so we put a lot of focus on collaboration.

In the past, I think J&J has done more mid- to late-stage licensing deals and acquisitions [of smaller companies,] and there's less of those available [in our industry.] ...Deal prices have increased, and so it's become harder to create value through those late-stage collaborations.

We recognized that we needed to focus earlier, and we do this through a number of mechanisms.

We have JLABS, our incubator model. Companies can literally start with a credit card and get just the right amount of lab space that they need. They can share equipment with other companies, and it's a great way for them to get their healthcare company off the ground without investing a huge amount of capital on labs and equipment.

It allows us to build a relationship with various companies such that when it comes time to do a strategic collaboration, they hopefully come to J&J first, because we've helped them and built a good relationship.

We also invest in the ecosystems that we're in, whether it be through early-stage investments in companies, providing advice and expertise, research grants, and various other mechanisms that we use to build partnerships and relationships at the early stages.

BOTH SIDES HAVE SKIN IN THE GAME

We have the business units providing at least 50 percent of our deal funding [when we make investments in startups.] Co-funding is a critical component of

WORKING PARTNERSHIP
"Our business units educate us on the latest thinking on the business strategy, so that we can help them achieve their objectives," says Darren Snellgrove.

our model, and on every collaboration we provide 50 percent of the deal funding from J&J Innovation, and the business unit provides the other 50 percent. We have found that both sides having skin in the game, and a say in the decision-making is an important component of success. We've actually looked at this model in terms of the returns that we get, and we've found that deals perform better when there's this kind of 50-50 collaboration approach.

OUR TRAINING AND EDUCATIONAL ROLE

We provide training and education, mostly around new, disruptive technologies that we're seeing, as well as a lot of education around the types of deal structures and approaches that we're deploying. We try and take an agnostic approach to the deal structure and find what works best for the partner and for J&J, often deploying structures that our business units are not used to seeing.

In turn, our business units educate us on the latest thinking on the business strategy, so that we can help them achieve their objectives. From my perspective, it's an extremely important relationship, and I think it's one that's evolving within J&J Innovation.

We're primarily focused on product innovation, but there's a lot that we can and should do really in conjunction with the business units to help with business model innovation.

A SUCCESSFUL COLLABORATION WITH GOOGLE

One that's interesting has been a deal that we did in our medical device group in collaboration with Verily, which is Google's healthcare group. We formed a new company called Verb, which is focused on robotic surgery.

It's a really exciting deal, and a great example of collaborating with a business unit to really think about the commercial strategy and how a robotic platform could play into our surgical franchise, which is a big piece of J&J's medical device business.

PUTTING TOGETHER DISPARATE GROUPS

About three-and-a-half years ago, we...recognized that it wasn't that easy to do business with J&J. We're a huge company that has a lot of capabilities to offer entrepreneurs and smaller companies, but it wasn't always easy to figure out how to access those capabilities.

We had a lot of externally-facing organizations, which made it even more confusing. We wanted to simplify that and bring some of our externally-facing groups together under the J&J Innovation umbrella. Johnson & Johnson Development Corp. [JJDC], our venture investing group, is one of those groups.

It has actually been around for more than 40 years, investing in various healthcare startups. It has been quite successful and has built a great reputation. We wanted to supplement that with JLABS (our incubator model) and also the innovation centers, which really are the glue that pull all the pieces of the model together.

The innovation centers have scientific and operational experts from each of our therapeutic areas and business areas surrounded by finance, legal, and business development folks that can help execute on important collaborations. The JJDC investors are co-located in our innovation centers.

TRANSFORMATIONAL INNOVATION, NOT AT ANY PRICE

We are focused on transformational innovation, and so we look at factors such as the level of unmet need, the amount of differentiation, the size of the opportunity, the strategic fit with Johnson & Johnson, the technical feasibility, and then [intellectual property] protection.

We're really looking for opportunities where we have line-of-sight to the project becoming an asset that can be on-boarded into the J&J pipeline, with the goal of bringing treatments to patients. We obviously use financial models as well to assess projects.

We defined success as reaching proof-of-concept and onboarding assets at a steady run rate into the J&J pipeline. The projects have to be transformational, and we can't do deals at any price. We've actually developed a framework called the "value creation pathway," which we use to make sure that our deal structures are appropriate from a value creation perspective.

GOVERNANCE, FUNDING, AND THE TRANSITION

We recognize that J&J is a big company and can be overwhelming at times, particularly for smaller companies, and we try to be really respectful and thoughtful about that so that we don't overwhelm them, and we bring the best that we have to offer to help them be successful. And if they're successful, we'll be successful as well.

So that's one thing I would offer up. Another would be to think carefully about your governance process, and funding mechanism, as well as your approach to the transition from your innovation group to your mainstream business unit. These are areas that are critical to success.

Treating projects like startups and keeping senior leaders in the loop at Johnson Controls

Johnson Controls, the Wisconsin-based building and energy technology company, has been innovating since it was founded by Warren Johnson in 1885. Johnson was a college professor frustrated by his inability to control the temperature of his classroom, so he invented the first thermostat and temperature regulation system for buildings. Today, the $37 billion company has 130,000 employees, and in September 2016 it completed a merger with Tyco, the global fire and security provider.

In recent years, Johnson Controls has developed a new approach to treating and funding new ideas more like startups — and also keeping them separate from the existing business units.

"It's really driven by a desire to accelerate growth," say Chief Marketing Officer Kim Metcalf-Kupres. "The trends that are driving demand for our technologies and services are moving fast, and they're moving fast on a global basis."

The company opened an innovation center near its Milwaukee headquarters in 2012. "The intent isn't to fire up a bunch of science projects to go after," says Avi Sahi, the company's Vice President for Global Innovation. "All these things go through a rigorous process of selection based on the ability to prove that there's a business case."

One example is the company's distributed energy storage (DES) technology — that is, batteries and digital control systems that let commercial building owners store electric power from the grid or renewable sources to reduce their costs and boost energy efficiency.

They grew out of an idea that emerged within the company's power solutions unit, where Metcalf-Kupres was previously Vice President for Global Strategy, Sales and Marketing. "We started work on that in a very organic way in our power solutions business when I was in that business, and an individual on that team with a very entrepreneurial spirit and a lot of energy took on the task to be a champion," she says.

After the project matured, it ultimately moved from the power solutions unit to become part of the company's "innovation engine organization" reporting up to Sahi, who himself reports to Metcalf-Kupres. "It has a budget of its own," Metcalf-Kupres says. "It's accountable to deliverables of its own, as if it's a startup in the company portfolio." She explains, "What makes a successful, mature operating business hum in a very successful way is often at odds with the space and the flexibility that you need to explore areas of opportunity that are less mature and more uncertain."

PURSUIT, REALIZATION, AND COMMERCIALIZATION

New projects at the company pass through three stage-gates. "When we're talking about the formal gates of our innovation process, we talk in terms of pursuit, realization, and commercialization," says Metcalf-Kupres.

The pursuit stage generally involves early assessments of the business and technical possibilities around an idea — "assessing strategic fit, ability to win, technical viability, commercial viability," she says—and perhaps some early technical experimentation and prototyping.

If the idea seems viable, it'll make it on to the realization stage— "a time-bound first phase of work to determine whether this is something we're going to push into commercialization," says Metcalf-Kupres. Generally that phase lasts less than a year, she says, with the company probing different business models, building prototypes, and testing minimum viable product versions.

"We may be investing in some first-generation products and some piloting," she says. "We may be partnering with some folks."

Then, if the product moves into commercialization, Johnson Controls effectively approaches it as a venture capital firm or lender would, setting profit-and-loss targets to unlock continued funding, says Metcalf-Kupres.

HOW FUNDING WORKS

"The management team is the bank, and [each project team has] got to justify their existence based on achieving these earning points as they go," she says. Ultimately, a project can be merged into an existing business unit, set up as its own business, sold, or formed into a joint venture with a partner company. "We're actually quite flexible, and I think it's one of the strengths as a multi-industrial company that we

LOTS OF OPTIONS
Projects can be merged into existing business units, set up as their own businesses, sold, or set up as a joint venture.

have—our ability to flex in our equity models, and our organization models," she says.

Since some projects that have already hit the market, like the distributed energy storage system, remain in the incubator, staff working on the project get the same "privilege of focus" they would at a startup, along with the support of the larger organization, like procurement and sales channels, says Sahi.

"DES is a product development innovation, which in this case has created a standalone product," referring to the energy storage product. "We're allowing the team to focus here on strategy, development, execution, sales and launch, because there's value in being laser-focused on building this specific product."

PROMOTING INNOVATION ALL OVER

The company is similarly flexible about where these processes take place. Johnson Controls has the innovation hub in Milwaukee, and it will add a second as it builds a second headquarters in Shanghai.

Other innovation projects spring up at locations throughout the world. Some take advantage of employees working within their particular business units, and some allow employees to leave their "day jobs" for a short-term assignment on an innovation project.

"Or they can take a longer-term development assignment, such as the ones that are resident in our incubator right now, where those people are full-time employees of the incubator," says Metcalf-Kupres. "It's a great way to keep talent within a broader organization and allow them to continue to advance in their career."

KEEPING SENIOR EXECS IN THE LOOP

Making decisions about which projects to prioritize, and when they've successfully made it through the particular gates, is a job for Sahi's team, in cooperation with the heads of individual business units and the company's executive operating team.

While some incremental innovations are handled purely within business units, larger-scale projects are often developed in partnership with the innovation team, which will typically assign a "coverage lead" to coordinate with a core team from the business unit.

"We do it in partnership with the business unit, all the way through," Sahi says. "Together, they take it through macro level thinking all the way to, 'Here's what we should do—here's how we should pilot it.'" Sahi also speaks with the company's executive operating team at least monthly, as part of the group's regular meetings, to study and refine the company's innovation pipeline and highlight individual projects' progress, he says. And his team meets about every four to six weeks with the presidents of individual business units to go into more detail about projects that overlap with their areas.

"At the [executive operating team] level, we select a specific subset of projects to highlight based on the maturity and the advancement of the project," he says. "At the president level, which is a separate meeting, it tends to be more comprehensive."

The business unit heads will look carefully at a project and decide whether to give it additional support, he says.

"For example, they can say, 'For the stage X is in, let me give you half a million or a million dollars to prove it,'" he says. "[Once] we have the proof, now if there's a case to go further, that might be bigger resourcing in terms of money, that might be more senior level commitment of certain professionals or their calendar." And if that proof fails to materialize, or projects fail to meet growth milestones, the company is willing to wind them down.

"You can't go after everything," he says. "Choices have to be made."

CLOSE TIES
Avi Sahi, Vice President of Global Innovation, meets with the presidents of individual business units every four to six weeks.

Hearst Health's Chief Innovation Officer on lab funding, staffing, and focus

In March 2016, we spoke with Justin Graham, Chief Innovation Officer for Healthcare at Hearst Business Media, as part of our IL Live series of conference calls.

FUNDING AND BUSINESS UNIT LINKS

Innovation Leader: Talk a little bit about working with people at the business units. It sounds like you are a resource for them, but explain to me how can you get their time when you want help from them — or do the businesses fund projects as they are moving out of the concept phase towards prototype or towards the market test? What's the input and output when you interact with the business units there?

Graham: I've maintained great relationships with all four businesses [that make up Hearst Health.] One of the first things I did after coming on board was setting up an informal advisory board made up of senior executives of each of those companies, as well as a few other individuals who are influential in the organization...At the minimum, they are informed on what we are working on and ideally, they can be partners on what we are working on. Otherwise, we would be concerned if we would be perceived as this separate entity that was off on its own and [the businesses] didn't know what we were working on. The relationship is very collegial and very friendly. ...We don't have too much trouble picking up the phone and contacting individuals we may want to work with in these individual companies. We also ran an innovation workshop last year that tried to cement more relationships.

Innovation Leader: Does any funding come from those businesses, or not really?

Graham: No. Not directly. The funding comes from the Hearst level, although at the end of the day, it does come from those businesses, but those individual businesses aren't necessarily making budget decisions about funding the innovation lab. We are not equipped to... do more than getting something to a minimum viable product. [After that, the next step] is either spinning off a new business entity under the Hearst umbrella, or spinning it into one of the existing companies. Our preference is probably to spin it to one of the existing companies [because they] already have apparatus for sales, marketing, et cetera. In order to do that, we do need to convince them of the suitability of the idea, and whether they are willing to [include it in] their capital budget planning for the subsequent year.

In that respect, we would like to see ourselves as a startup pitching an investor, and being able to convince them that what we are working on is something they should spend their money on and invest in the coming years. I think it's good. It keeps us honest, and it holds us to a high standard. We have to justify what we are working on and prove that there is a business value and it is technically feasible. It keeps us grounded in very realistic projects that have real long-term potential.

We are very much a pragmatic, product-focused innovation lab. There's a wide variety of what an innovation lab can do. Some are hubs for trying out new technology and testing out new prototypes, without any necessary market potential... Some are focused on internal business process optimization. We don't do either of those. We are focused on products that have a real long-term return on investments. It's more of an investor model, a startup model where...they are going to get [a return] back on the money they put in.

WHERE DO IDEAS COME FROM?

Innovation Leader: The first listener question is about ideas. Do the ideas come from your staff at the lab, or do they come from the business units as part of their strategic plans, or things that they are trying to accomplish? You can also give us a couple of concrete examples of the type of ideas that you guys have worked on.

Graham: I would say ideas come from all the above. Everyone on the team has been working in healthcare for a decade and more; we all know healthcare inside and out. Healthcare is an industry that has no shortage of problems to be solved, and I am not worried for my career, being in the healthcare innovation space.

We're in the middle of a long effort to slowly turn a battleship that is heading towards an iceberg and we are going to do it, but [there are a lot of things] that need to be fixed in healthcare. We have an idea list that's a bit longer than we have the capability to work on already. I'll give you some examples of some things we've done in the past — this is a little bit before I came on board. One of its first spin-

FOLLOWING THE MONEY
Business units at Hearst "aren't necessarily making budget decisions about funding the innovation lab," Justin Graham says.

off products was something called the AlertSpace, which is a tool used in conjunction with First Databank. First Databank creates tools to be used by physicians when they prescribe a medication. That medication may have interactions with other medications or may not be suitable for you as a patient because of the problem that you have with your kidneys or your liver. Various alerts would [show up] to the physician as he or she was writing that prescription. One thing that we are facing today...is alert fatigue — too many alerts, too often. AlertSpace is a tool that healthcare providers and hospitals can use to tweak the sensitivity of their alerts.

If they're getting physicians complaining about an antibiotic causing too many alerts, they can dial that down. It's an overlay on that First Databank product.

We also created a product about a year-and-a-half ago that provided evidence-based information to pharmacy benefit managers, who are the companies that are the middlemen between your insurer and your pharmacy.

They are charged with trying to determine whether the medication prescribed by your doctor is the right medication — particularly when it's an expensive, high-cost specialty medication. Are you being treated with the medication for the right reasons? Because the worst thing to do is to give you the wrong medication and then have it be super-expensive. We provided some high-quality, evidence-based information in an electronic format that's compatible with the latest electronic health record systems to enable what's called a "medication prior authorization" to proceed in an automated fashion. We're trying to automate some inefficiencies involved with faxing forms back and forth to fill out that medical information.

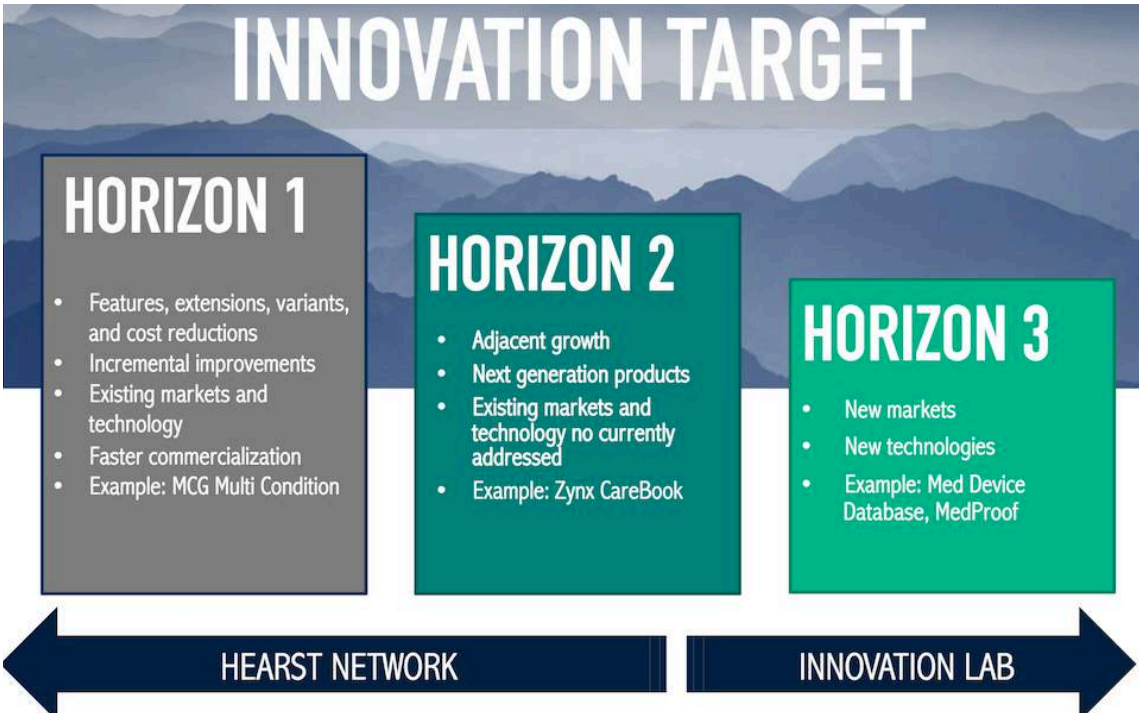
STAYING ALIGNED WITH SENIOR LEADERS

Innovation Leader: What's one thing you do on a regular basis to make sure you have continuing senior leadership support? Is it a report that you provide? Is it just in-person meetings? What would you say is important for just maintaining support?

Graham: Despite being enormous, our local group is small. The leader of Hearst Health and the leader of Hearst Business Media — I have a dual reporting relationship with both of them. I'm in touch with them frequently, but I have a tremendous amount of autonomy, too. I run my own ship. I check in with them regularly. I also have these quarterly advisory board meetings, which are seen as checkpoints for what we're working on... We use those as milestone points.

We go through two phases, I've found, in the last few years. We're divergent for a period of time, where we are cycling through a lot of different ideas. We're brainstorming. We're looking at our pipeline. We're getting out and interviewing people and trying to refine different concepts, and seeing which one might hold some water.

When we start to narrow our field and narrow our pipeline, we might be looking at six, seven ideas and then [we] narrow things down to one that looks most promising. We identify a really promising vein of ore to dig into. Then we start dropping everything else and we converge... Instead of each person working on their own idea, [everyone] focuses on the one idea that has the most potential. We scrum hard on it. We go into a full-blown startup mode...



The diagram at left is how Hearst Health's innovation lab defines what it focuses on.

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