

***Strategic***

***Alliances***



***Engines of Innovation***

## **Frequently Asked Questions**

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

***What a Senior Executive Must Know  
and Questions Most Asked***

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## *The Harsh Realities of Innovation*



### *Cutback in R&D spending raises Red Flag*

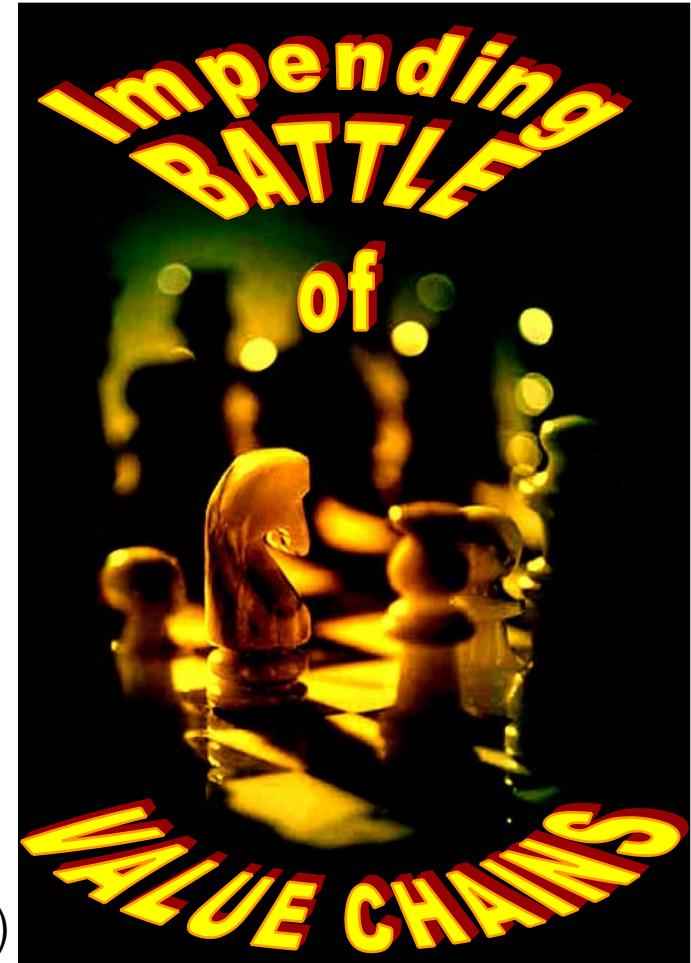
*By Matt Krantz | Oct 13, 2005*

- Companies spent slightly less on R&D as a percentage of revenue in the second quarter than they did a year ago, according to a USA TODAY analysis of Capital IQ data, looking at members of the Standard & Poor's 1500 index.*
- Spending on R&D by companies in the benchmark S&P 500 index has grown 3.3% over the past four quarters, well below the 11.6% growth in revenue during the same period, S&P says.*



## Things to Keep in the Forefront of Thinking about Innovation

1. ***This is a GAME of BOTH STRATEGY & TACTICS***
2. ***You Cannot Cost-Cut your way to Prosperity***
3. ***In a Fast Moving World, Innovation is the most sustainable source of competitive advantage***
4. ***Innovation from Suppliers and Alliance Partners is typically the least costly, least risky, and often the fastest to market***
5. ***Strategic Alliances Partners & Suppliers are an Untapped Wellspring of Innovation, but require Collaborative Relationships to access it***
6. ***Vision without Execution is Hallucination***  
(You don't have to be Perfect, Just Better than the Competition)



***Strategic***

***Alliances***



***Engines of Innovation***

## ***Frequently Asked Questions***





## Why is Innovation Important?

***In a Fast Moving,  
Rapidly Changing World,  
The Most Sustainable Sources  
of Competitive Advantage are  
INNOVATION  
&  
COOPERATION***



# Does Innovation Really Create Value?



**E**XECUTIVE SUITE  
Talking Business with Ron Insana

Monday, February 06, 2006  
Page 8-B



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

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

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



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

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

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



## How exactly do you define “Innovation?”

- **Innovation:**
  - Transformation of a New Practice, Product, Process, Or Paradigm by an organization (company, team, alliance, etc)
  - Unique collection of ideas or assets that synergistically yield new solution or result, unanticipated and unexpected
  - Adapting, adjusting, or altering that which already exists for the purpose of adding value.
  - Innovation can be triggered by an Invention, or occur without a technological invention (see next question)
- **Invention:**
  - The Creation of a New Idea, Object, or Technology
- **Creativity:**
  - To cause to come into being, as something unique that would not naturally evolve or would not exist via ordinary processes. Resulting from originality of thought.
  - Co-Creativity is to create with one or more people, particularly using the synergy of compatible differences.



## What are the Different Kinds of Innovation?

How Five Different Companies Choose Different Approaches To Innovation

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

### 5. Market Extension Innovation

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

### 4. Process Innovation

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

### 3. Product Innovation

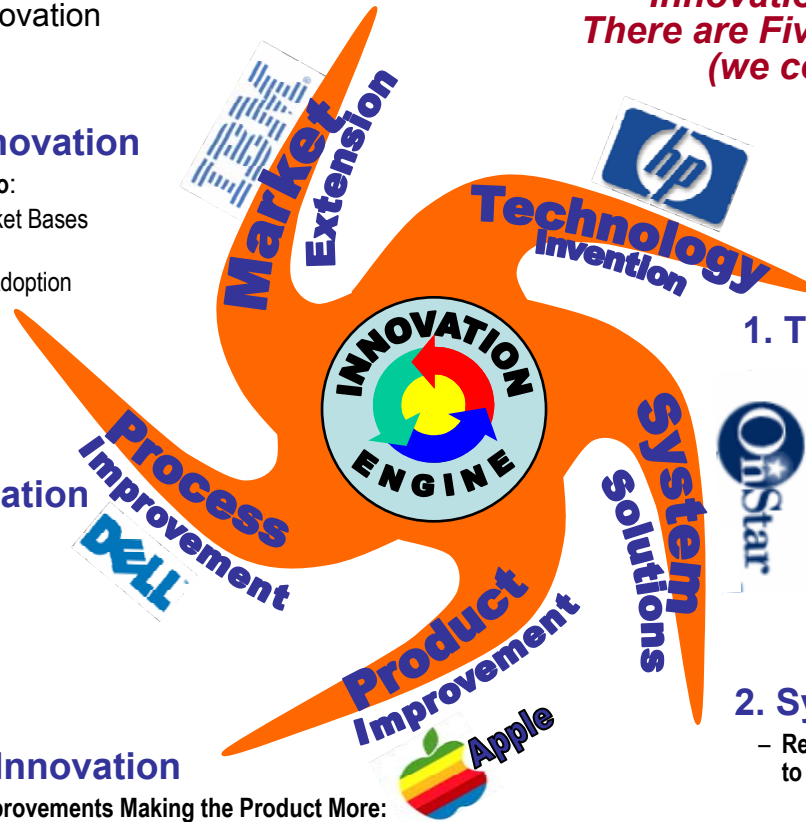
- Continuous Improvements Making the Product More:
  - Efficient, Effective
  - Leveraging Existing Core Technology
  - Useful or User Friendly
  - Integrated with other products, technologies, or systems
  - Valuable to users

### 1. Technical Innovation/Invention

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

### 2. Systems Solutions

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







## **Why are Alliances so Important to Innovation?**

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



- ***New Paradigm Generation comes from people who do not think alike***
- ***Locked inside the alliance lies the hidden potential for co-creative breakthroughs, making Alliances the perfect vehicle for innovation.***



**What is the Potential for Alliances to  
Generate New Paradigms?**

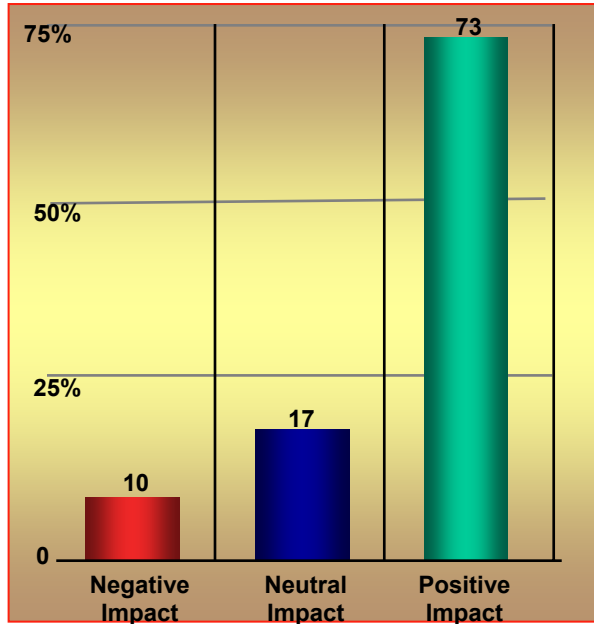
**Alliances generate new paradigms  
through the synergy of compatible  
differences**

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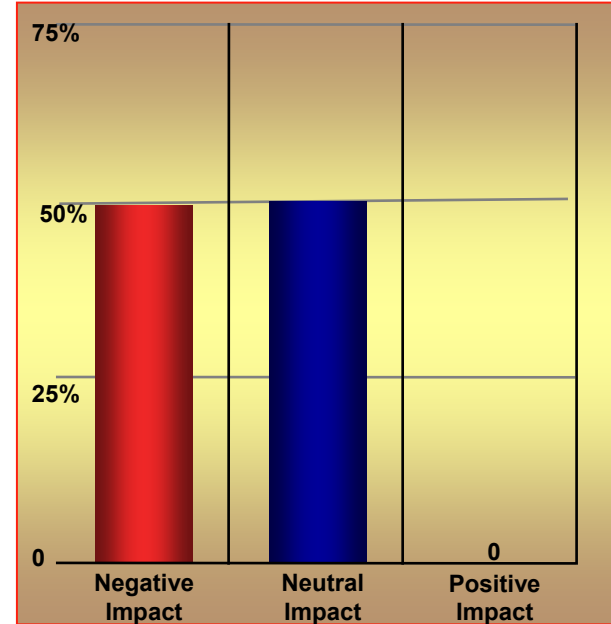


## Are Alliances Truly Important to Innovation?

### Impact of Alliances on Innovation



### Impact of Mergers & Acquisitions on Innovation



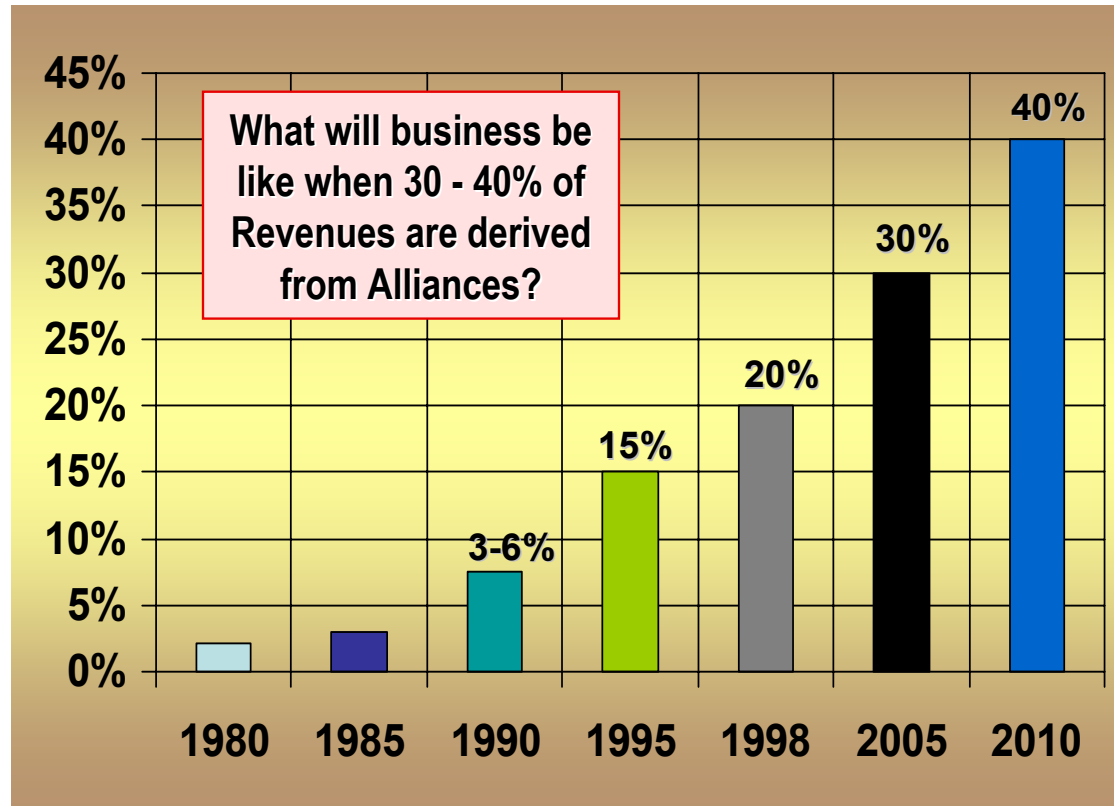
Source: 2002 Ministry of Economic Affairs in the Netherlands –University of Einhoven Study -- Extensive literature review on the available empirical studies regarding the effect of strategic alliances and mergers and acquisitions on innovative performance

- University of San Diego Supply Chain Management Study of 244 companies:
  - 35% of all product innovation comes from suppliers.
- Evidence shows that the Best Companies derive upwards of 60% of their new product innovation from external sources.



# How Important are Alliances in today's world?

*-- Alliances Growing as a Source of Revenue --  
Alliances as Percentage of Revenue for  
Top 1,000 U.S. Public Corporations*



What will business be like when 30 - 40% of Revenues are derived from Alliances?

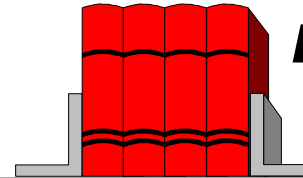
Sources: Columbia University, European Trade Commission, Studies by BA&H, AC.1983-1987, 1988-1993, 1994-1996, 1999 EIU Global Executive Survey Andersen Consulting, Warren Comp.



## How do you define “Strategic Alliance?”

**Alliances have several functional characteristics that will help you know if you have an alliance:**

*(If these characteristics are missing from your relationship, you may not have what you though you had, and it probably isn't producing the results you desire)*



### Best Practice



- **Functional Definition**
- ✓ **Synergistic (1+1>3)**
  - Powerful Value Proposition
  - Mutually Aligned Goals
- ✓ **Strategic**
  - Affects Long Term Destiny
  - Alters Expectations of the Future
- ✓ **Championed**
  - Top Rank Support & Operational Unit Sponsorship
  - Alliance Champion
- ✓ **Integrated**
  - Tight Operating Linkages
  - Governance Structure
  - Interaction at Multiple Levels
- ✓ **Collaborative**
  - Win-Win Commitment
  - Compatible Business Models
- ✓ **Reciprocal Relationships**
  - Shared Assets
  - Sharing Strengths & Information
  - Shared Risk & Reward
- ✓ **Regenerative**
  - Renewing Agreement/Contract
  - Adapting Strategy to Changes in Competitive Environment
  - Innovation Essential



## **What makes a company “Proficient in Strategic Alliances?”**

***There are Four main criteria to judge whether a company is proficient in alliances:***

***First:***

***Does your company see alliances as “Strategic” (as a major contributor to its ability to create competitive advantage in the market place?)***

***Second:***

***Do the alliances have Senior Level Support/Commitment?***

***Third:***

***Has the Alliance initiative in your company become Professionalized, with first class management and the commitment to build real capability in alliance Best Practices in the staff?***

***Fourth:***

***Do the alliances have a major Innovation Component that keeps them focused on Inventing the Future?***



## What exactly is an “ENGINE” of Innovation?

- **An “Engine” is a device that generates power from fuel.**
- **An ENGINE of INNOVATION uses two sources of fuel for its energy:**
  - The Co-Creative Power of Differentials in Thinking
  - The Aligning Power of Best Practices and Best Processes, which prevents these differentials from colliding in conflict, and instead generates new levels of thinking.
- **Based on your company’s strategic goals, with your close involvement we construct the ENGINE, Utilizing Best Practices, which addresses six leverage points for critical changes:**
  1. **Strategies, Policies, & Programs** that Inspire your Organizations (Internal & External)
  2. **Leaders & Champions** to Put the Program into Operation and Practices that create Alliance Relationships between internal and external organizations
  3. **Legal Instruments & Contractual Arrangements** and Policies that will spur on the formation on Innovation & Next Generation Technologies
  4. **Organizational Relationships and Frameworks** that insure a great flow of continuous innovation along the value chain
  5. **Performance Processes and Practices** that are driven down into the operational ranks to produce results
  6. **Econo-Metrics** that measure your results, link rewards with performance, and diagnose problem points early



**You talk about the “Architecture of Innovation.”  
What do you mean by “architecture?”**

- ***Just as architecture in constructing a building enables you to construct a wide variety of buildings that are both aesthetically pleasing and will last through storms, heavy usage, and the ravages of time, so does Innovation Architecture.***
- ***Architecture simply means a set of strategies, policies, methodologies, principles, processes, practices, and tool kits that enable you to successfully manage and create innovation over and over again.***
- ***Great architecture should have a foundation in Best Practices which have proven over time to produce outstanding results.***





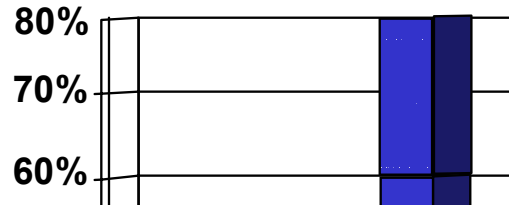
**If Innovation is so Important,  
Why all the fuss about Best Practices?**

- ***Innovation Creates Change***
- ***Change is Disruptive***
- ***Disruptions Cause Conflict***
- ***Conflict Triggers Control Reactions, Isolation, and Defensiveness***
- ***Best Practices are ESSENTIAL to overcome these Obstacles – they “trick” the Corporate Immunal Rejection Response into seeing “change as beneficial”***





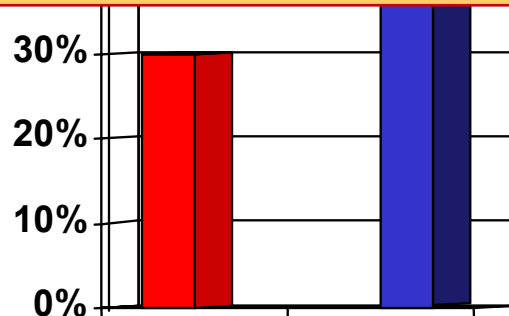
# Do Best Practices have an Impact?



**Alliance Success & Failure Rates**

*With Best Process & Best Practice, Success rates are more than doubled, thus:*

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



**Typical Company**      **With Best Practices**

The Best Protection Against Failure is NOT the Legal Contract, But the Disciplined Use of Best Practices

Sources: The Warren Company 1994-2002  
 University of Einhoven, Netherlands 2002  
 Booz-Allen Hamilton, 2000  
 Brigham Young University-Wharton Study, 2001



## How can I get access to these Best Practices?

***During the last 15 years, we have conducted a number of Best Practice studies on the subject of strategic alliances:***

***1. Strategic Alliance Best Practices:***

*This is an ongoing analysis. The results of this program have been donated to the Association of Strategic Alliance Professionals (A.S.A.P.) in the form of a Best Practices Workbook. While we do sell this document, we recommend you join A.S.A.P. and get a copy as a benefit of membership.*

***2. Outsourcing Best Practices:***

*This study focused on what made a great outsourcing relationship and practices that produced great results. Our clients have access to this material in the work we do.*

*(contact us if you would like a free copy of the CEO's Pocket Guide to Outsourcing)*

*The more extensive Best Practices Practitioner's Guide is also available for sale.*

***3. Engines of Innovation:***

*This study is the latest of our examinations of how collaboration creates competitive advantage. The overview of the results are published on this web-site in the Best Practices section. Because of the expense of doing a study of this type, we give clients access to the detailed practices through our Consulting Services.*



## A | S | A | P

ASSOCIATION OF  
STRATEGIC ALLIANCE  
PROFESSIONALS

### **Strategic Alliance Best Practice User Guide**

**How to  
Form, Manage and Evolve  
Key Business Relationships**

**By Robert Porter Lynch**



**THE WARREN COMPANY**

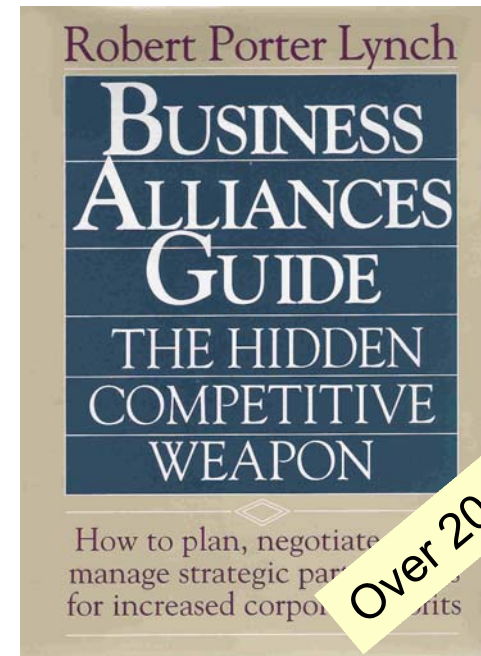
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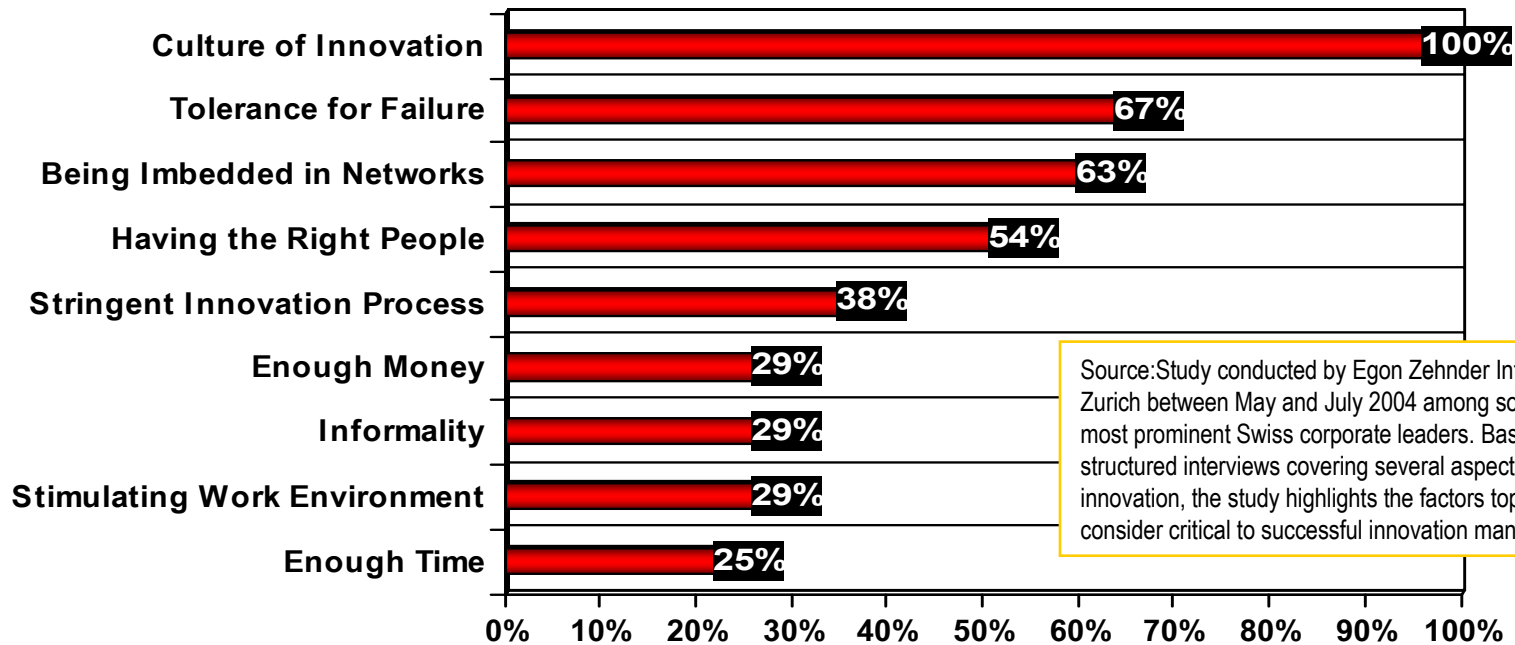
[www.warrenco.com](http://www.warrenco.com)

Our Best Practices are Imbedded in Thousands of Successful Alliances around the world through the Association of Strategic Alliance Professionals and our extensive training of over 15,000 executives world-wide.





# What are the Most Important Success Factors for Innovation?



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

### CEO Comments:

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

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

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

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

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



## Getting Started

# ***How to Begin Implementing an Engines of Innovation Program***





## Could you give some examples of the results of an Engine of Innovation Project?

• Here are some vignettes:

- **Established a Flow of Innovation between Bio-Tech Firms and a Global Pharmaceutical company resulting in an abundance of new technologies being transformed into new products.**
- **Reengineered an Insurance Industry firm to enable new Innovations to turn a money-losing product line with dissatisfied customers into a highly profitable venture with very satisfied customers**
- **Reoriented Global Procurement to establish flow of Innovations from Suppliers into new products and new processes, resulting in jump in new sales, reduction of costs, and faster speed to market.**
- **Transformed Vendor Relationship in Major IT Global Outsourcing into Co-Creative/Innovative interaction, resulting in new processes, cost reduction, and win-win business model.**
- **Developed strategies and best practices for Global Pharmaceutical to enable producing quantum in Innovation Streams**
- **Strategically and Operationally Shifted Alliance between two Global High Tech companies to focus on new, joint innovations for customers resulting in jump in sales and customer satisfaction.**





## **How extensive is an Engine of Innovation Project?**

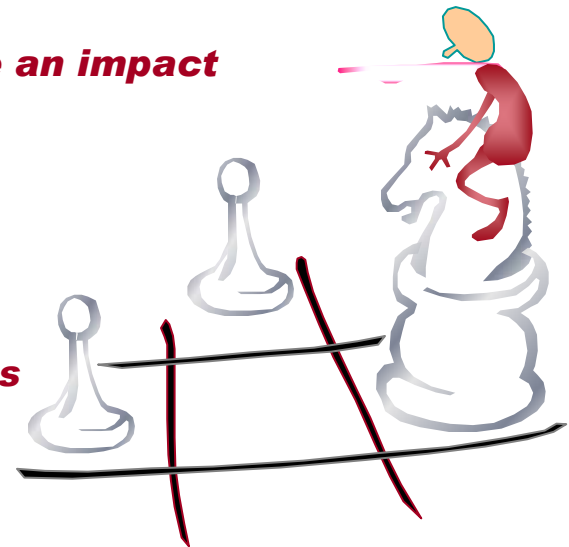
- ***Some companies like to start on a large scale, others prefer smaller scale, like a pilot project, or a three day action planning program.***
- ***It just depends upon how much support, vision, commitment, and resources you have in the organization.***
- ***The important thing is to do something, large or small. If you don't, your competitor will eventually capture the high ground.***





## What you must be prepared to do

- 1. Start Thinking about Innovation Strategically**
- 2. Make a Senior Level Commitment**
- 3. Identify Business Units Where Innovation will have an impact**
  1. Technical Invention
  2. Product Improvement
  3. System Solutions
  4. Process Innovation
  5. Market Extension
- 4. Appoint Innovation Champions**
- 5. Address Six Leverage Points – Apply Best Practices**
  1. Strategy
  2. Leadership & Relationships
  3. Legal & Contractual
  4. Organization Design
  5. Performance Processes
  6. Econometrics
- 6. Launch Innovation Pilot Projects**
- 7. Measure Results, Make Adjustments, Expand & Proliferate**





## Why is “Total Cost of Ownership” so critical?

- ***TCO is the Gateway to:***
  - Process Innovation
  - Real Cost Savings
  - Shared Risk & Reward
  - Deep Understanding of Operations
- ***Share the Value Created by TCO improvements to stimulate Joint Innovation***



## *How Can You Start Innovation On A Shoe-String Budget?*

- ***Alliances with Suppliers and other Companies in the Value Chain create great opportunities for Innovation***
- ***Better to Start Small and Win Fast***
- ***Build Internal Capability to Implement with Your Own Teams***



**This is a Senior Executive Responsibility**

***Make INNOVATION a TOP PRIORITY***

***Vision without Execution is Hallucination!***



***Manage Your Imagination!***



## **What's At Stake?**

***Knowledge lets us Understand our PAST  
Imagination lets us Design our FUTURE  
Alliances as Engines of Innovation is the Vehicle  
for Creating our Synergistic Future***

***Einstein: "Imagination  
is more important than  
Knowledge"***

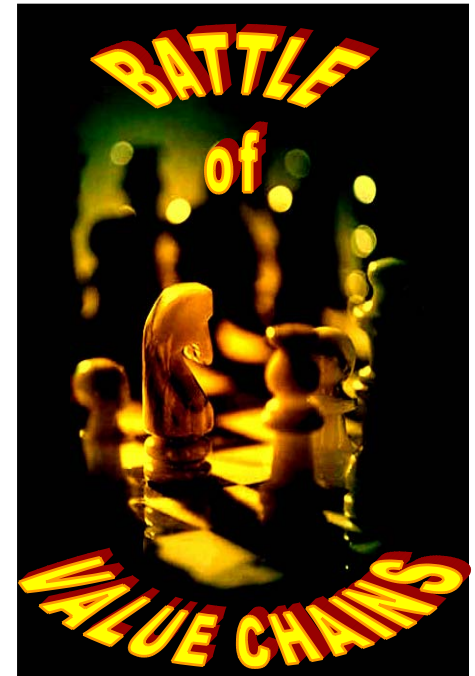


## The Time is NOW

- **The Battle of Value Chains Has *BEGUN!***
- **The Alliances are being formed**
- **Innovation is the Field of Battle**



*I can regain lost ground,  
BUT CAN NEVER REGAIN  
LOST TIME -- Napoleon*



Companies who are learning to get it right:

- P&G
- Lilly
- IBM
- Cisco
- Philips
- On Star
- Rolls Royce

***Strategic***

***Alliances***



***Engines of Innovation***

## **Getting Results**

***How Extensive is the Impact?***

***When Can I Expect Results?***

***What's the Value Proposition?***







## How Large is the Impact of an Engines of Innovation Program?

- **We've worked with clients where the impact has been of these magnitudes:**
  - Major New Product Streams generating Billions of \$ of New Revenues
  - Quantum Shifts in Profitability
  - “Invisible” Competitive Advantage (unseen by competitors and analysts)
- **The Impact will be very dependent on which end(s) of the Value Chain we are targeting.**
  - Research & Development: Our experience has shown we can double the innovation flow.
  - Supply Chain & Outsourcing Management: Our experience has demonstrated that well designed and managed alliances with suppliers will:
    - Reduce the Total Cost of Ownership of purchased materials, equipment and services by 20%.  
(Note: it may take 3 years to enjoy the full fruit of such efforts.)
    - Experience indicates that a minimum of 60% of your purchased items can/should be obtained under supply alliances.
      - Our practices, when applied to this 60% of your spend should result in a reduction of 12% in your overall spend (20% (savings) X applicable to 60% of total spend.)
  - Go To Market: Our experience has evidence that Collaborative Engines of Innovation can:
    - Increase sales by some 20-30%.
    - This increase is based on a number of forces:
      - Increased flow of innovation
      - Improved time to market
      - Greater coordination among service providers
      - Integration between internal & external functions
      - Reductions in Non-Value Added work





## *When Can We See Results?*

***Most Companies begin to see Visible Outcomes in the first month or two.***

We have numerous examples where the results manifest in the first interactions with prospective alliance partners. Most companies are actually excited that someone finally asked



## What's Your Value Proposition?

- ***We will***
  1. Double Your Innovation Flow from your External Value Chain
  2. Add Substantially to Revenues (often quantum jumps)
  3. Significantly Impact Your Bottom Line
  4. Create a "Hidden Competitive Advantage"  
your competitors will find difficult to match
- ***At the Beginning of every project, we will map the expected results with you to determine the targets, impacts, and results expected.***



## Contact

### **Robert Porter Lynch**

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***For Consulting Assistance, Workshops,  
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