

The Thought Column with Robert C. Wolcott

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Dr. Wolcott teaches corporate innovation and entrepreneurship for Kellogg's MBA and Executive MBA programs in Hong Kong (with HKUST), Miami and Evanston. In 2002 and 2005, he served as Visiting Professor at the Keio Business School (Tokyo).

Wolcott's recent articles include *Four Models of Corporate Entrepreneurship* (Fall 2007) written with Dr. Michael Lippitz. They are currently writing a book due to be released in the spring of 2009. His article, *Twelve Different Ways for Companies to Innovate* (Spring 2006), co-authored with Mohan Sawhney and Inigo Arroniz, was selected in 2007 by the editors of the MIT Sloan Management Review as one of the top 20 innovation articles of the past 20 years.

In 2003, Wolcott founded and has since directed the Kellogg Innovation Network (KIN), a network of senior executives dedicated to driving sustainable innovation. Members include Cargill, Cisco, Wrigley, IBM, DuPont, Kraft, Raytheon, BP, Motorola, SC Johnson and others. In December, 2008, Wolcott will lead the first *KIN Global Summit* at Kellogg, bringing 200 business, government and academic leaders together to explore the role of innovation in solving the global challenges of the 21st century. Robert can be reached: r-wolcott@kellogg.northwestern.edu

Interview conducted by Doug Berger, Managing Partner, INNOVATE doug@innovate1st.com

Doug: One of the ideas you have researched and written about is the Innovation Radar.

Robert: Aside from new products, very few companies have ever taken a hard look at where they are spending their innovation dollars and the relationship between that and their overall corporate strategy. For the most part, companies select innovation targets based on looking at where they've always looked, or in response to their competitors' innovations. Effectively, many companies act as if they are thinking, "we've always innovated around our products and so does everyone else, so that must be where we should focus. That's just how things work in our industry." We are suggesting that you need to be more deliberate and strategic. You need to take a comprehensive look at all of the ways in which you do business and intentionally select the dimensions on which you are going to focus your innovation resources. The Innovation Radar helps you do this. That doesn't mean you ignore the other vectors, however. In fact, we make a conscious decision to select *dimensions of parity* as well as *dimensions of differentiation*. I also wouldn't go so far as to say that you have to compete in different dimensions. Frequently, we see a company innovating on the same vectors as other

companies in their industry and still succeeding. It just means that you have to do that *much* better than everyone else does.

If you think about a company that says, "We want to differentiate ourselves and compete based on operational efficiency," well then, you had better be innovating significantly around the supply chain or perhaps operating processes. On the other hand, if you have decided to differentiate by being a product or technology leader, then you had better be innovating around the customer platforms and offerings. The notion of the Innovation Radar highlights the ways in which a company decides to differentiate itself. It builds the bridge between corporate strategy and the company's innovation regime.

Doug: Which companies have made some deliberate strategic choices within the dimensions they innovate?

Robert: Procter & Gamble is a great example. Their open innovation approach would show up on the Innovation Radar as going external to P&G to find opportunities, technologies, products, etc. But that's not all. They had to think about innovating in their internal processes to make this 'open' model work. Most people miss that when they look at P&G's success. It is a lot more than just looking outside. You've got to *act differently inside* as well. That was a markedly different approach not only to competing, but also to accomplishing innovation.

I would point out Best Buy and Target. These are big retailers that have been successful at taking a new look at their businesses and creating unique pathways for the company. Target took a different approach than either Wal-Mart or Kmart. They recognized that they weren't going to beat Wal-Mart at their own game of supply chain efficiency and low prices, and focused on brand and customer experience. This was a revelation, because Target is really a discount store and yet they have been able to create an environment, a brand persona, which attracts people. They've dispelled the myth that great design must be expensive and they've leveraged that across what is still just a discount store. They continue to do it over and over again, in the way that they think about customers, in the way they think about experience and in the way that they reorganize their stores.

Best Buy has a very interesting approach not only to thinking about innovation, but also to helping people around the company understand how they innovate on behalf of the customer. They have archetypical customers that they talk about within the firm. For example, they have someone whom they call "Jane." Jane is simply a prototypical Best Buy customer. I believe Jane is the early forties soccer mom, lives in the suburbs with an SUV and has certain types of preferences and buying habits. When someone at a store has an idea and tries something new, they say, "What do you think Jane would think of that?" Everybody knows what they're talking about and they can have a very cogent discussion.

Other good illustrations are Astra Zeneca and Pfizer, which lobbied the FDA to change the rules in order to allow direct to consumer (DTC) advertising. Prilosec, the purple pill, became the largest grossing drug in history at \$6 billion a year, and soon after that came Viagra. My point is this - the majority of experts in that industry believed it would be a bad idea to advertise directly to consumers, and for good reason. To begin with, consumers don't know what they need. Secondly, they can't buy unless a doctor writes a prescription. This is a very rational argument. Now, fast forward to today; you cannot bring a potential new blockbuster drug product to market without at least

considering DTC advertising. This was a game changing innovation that had nothing to do with the technology.

Doug: Different companies go after organic innovative growth in very different ways. You have come up with some ways to classify how companies have been doing that.

Robert: We have developed a framework that articulates four different models for building new businesses within an established firm. It is relevant to innovation in general, but we happen to be looking specifically at the creation of truly new businesses. We see it as an emerging phenomenon. There is a lot more activity in this space today than there was ten years ago. We wanted to understand how companies were approaching this problem and what seemed to be working and not working. One of frustrations was the lack of alternatives to managing sustainable innovation.

The Classic Approach to Business Creation

If you had asked someone in the seventies or eighties, "Who are the most innovative large corporations?" they would have said, "3M," and stopped there. I'm exaggerating, but there weren't really that many corporations considered truly innovative. Academics and consultants therefore, would go to 3M and say, "Here's how 3M does it, so that's what you should do." Not surprisingly, that didn't work at most companies. 3M had many practices that people were welcome to use elsewhere, but they just wouldn't work at most other companies. There is a famous example of how everyone in the company was offered 15% of their time to do anything that they thought would add value for the company ... they could really do anything they wanted. In most companies, that would be a big challenge. In addition, if your boss didn't like your idea, you were welcome to go anywhere else in the company to drum up support. At many companies that would be a quick ticket to a pink slip. It worked at 3M because of the cultural substrate.

The other classic approach to creating new business was the Skunkworks, the name given to Lockheed's separate organization in the U.S. southwest desert. They developed the SR-71, the fastest jet in history, as well as a number of other seminal innovations. The Skunkworks was very successful because it had a separate group with a lot of autonomy and separate resources, which completely protected it from the rest of the company. While that works in certain situations, there are also instances in which it does not work for the company's benefit at least, notably Xerox PARC in the 1970s. We learned that one of the weaknesses of the Skunkworks was that it wasn't connected enough to the business, and ended up not transitioning opportunities that were a fit for the company.

There were very few models for companies to follow in terms of creating new businesses. We have seen some very exciting things develop in the past 5 years and we looked at a wide range of companies, ultimately over 30, in some detail.

The Opportunist Model

We found that every company by definition starts as what we would call an "opportunist," meaning that there are no dedicated teams within the company whose job is to build new businesses. There is no dedicated pot of money allocated specifically for the creation of new businesses. Someone in the company has an idea and if they have the guts and the passion, they go to work every day and try to find some support. Against all odds, occasionally someone succeeds, and they raise the capital and the people, it works out in the marketplace and you've got a new business line.

When everyone else in your business or industry is doing it like this, then you're okay. However, when some companies in your industry start to figure out how to build new businesses on a repeatable basis, then you could be in some trouble. Over the past five years, we have found that some companies are deliberately building new businesses and they're creating a great advantage for themselves. We looked at these companies and knew that we needed to find some commonality so that we could organize the space. We wanted managers to understand the options, the tool sets and how to know which one to use.

We ended up recognizing two dimensions that define the differences between these models. One dimension is organizational ownership ... who has the responsibility for building new businesses? Is there a set of people whose necks are on the line to make that happen, and where are they organizationally located? The second dimension was resource authority. Who has the ability to allocate funds in order to help radical innovation or new business creation happen?

The Enabler Model

Some companies have a dedicated pot of money but no focused organization whose job is to build new businesses. We call this quadrant the "enabler model." Google is the poster child in this quadrant. Google is a challenging model because the way in which they operate does not work for most companies. However, it illustrates the quintessential enabler, all the way from hiring to the way they manage on a day-to-day basis. Everyone in the company is expected to contribute to the creation of new businesses and is welcomed and encouraged to do so. They are enabled by a very large pot of money that is held at the top level of the company. They have weekly meetings and people come in to present their concepts and pass out some money. It is a very dynamic, internally entrepreneurial marketplace.

The Producer Model

Another quadrant contains companies that have a dedicated pot of money, dedicated resources, and a team charged with building new businesses ...real money, real people, focused on building new businesses. This we call the "producer model." The team has more authority and room to maneuver. IBM was one of the pioneers in this respect. There is a model called Emerging Business Opportunity (EBO). Sam Palmisano ascribed nearly \$15 billion of revenue to companies that have come out of the EBO process. They have the ability to allocate resources. They recognize that they need to reach out to business units and partner with them. They need to tie new businesses in with the business units so that there is a home for these new businesses after they start growing.

Cargill has a group like this that has been quite successful. Some dedicated groups develop from corporate venture capital, like Motorola's Early Stage Accelerator (ESA), which is now again part of Motorola Ventures. However, these groups pursue not just external ventures. They are looking for external and internal opportunities where they can bring resources to bear. They are also assigning management teams, recruiting talent, tracking the progress and they are actively involved in the building of these companies.

The Advocate Model

If you picture this framework as a two-by-two matrix, I've only talked about three models. There is this funny model in the bottom right corner that we call the "advocate model," which looks like it should be an absolute disaster. If assigned to this kind of an organization, you might think that you should be looking for a new job. Companies in this quadrant have a dedicated group, whose explicit job is to build new businesses or

transform businesses for the company. Yet, they don't have a dedicated pot of money. The funding is done on more of an ad hoc, case-by-case basis.

This looks like a trip to failure, but in fact, this is one of the most powerful models. It is very non-intuitive at first, but once you understand it, you realize the power of this model for accomplishing innovation that matters within the company. In the advocate model, members of the team absolutely have to go out to the business units and corporate entities to raise the money in order to do significant projects. This means that they have to prove the value. They have to engage with business units in order to help them accomplish their objectives.

At DuPont, Chad Holliday, the CEO, in 1999 tapped a fellow who is now with us part-time at Kellogg, named Bob Cooper. Bob had been with DuPont for 30 years. He led a small division, had great relationships around the company and credibility with people as both an operator and a scientist. Chad said, "Bob, I need to help the various business unit divisions of DuPont become more innovative, to change their business model in order to combat commoditization. Set up a team of people to do that." Rather than putting a whole bunch of money into a fund and setting up a new team to go off and do new things themselves, Bob set up a small team of about six people, whose full-time job was to be expert on innovation at DuPont. They spent all of their time going out to divisions to find senior leadership who were interested in partnering with this group. They developed some rigorous processes to evaluate and transform market strategy, the product line and the way they go to market. Over the past seven years, this organization has returned an order of magnitude more than its cost back to DuPont. This was a brilliant set-up in that it forced this team out of the lab. These people know and understand technology, so they're credible. Moreover, they understand how to build new businesses, how to transform old, existing businesses and how to think strategically.

The power in this kind of a model is that, sure, it can be great to go out and find a very experienced consultant. Certainly, I am a big fan of people hiring professors and consultants, but it's even more exciting when you end up having innovation experts who know *your* company better than all of those people. They become expert networkers and advocates on behalf of innovation around the company and know how things work in *your* firm.

Doug: How should a company go about selecting the right model?

Robert: Evolving deliberate forms of corporate entrepreneurship typically begins with a mandate for growth. A critical question is "what type of growth?" A company needs to delineate specific objectives. Perhaps the problem is that people are not effectively pursuing "white space" growth platforms, or it's commoditization within a particular division, or there's a disruptive threat. The answers to such questions will suggest the use of one model over another.

Unless a company is blessed with the right culture, and few are, corporate entrepreneurship won't just happen. This kind of capability hardly gets built overnight. Corporate entrepreneurship will always be a rough-and-tumble process.

Relevant Publications

The 12 Different Ways for Companies to Innovate

Mohanbir Sawhney, Robert C. Wolcott and Inigo Arroniz,
MIT Sloan Management Review, Sprint 2006
<http://sloanreview.mit.edu/smr/issue/2006/spring/14/>

The Four Models of Corporate Entrepreneurship

Robert C. Wolcott and Michael J. Lippitz
MIT Sloan Management Review, Fall 2007
<http://sloanreview.mit.edu/smr/issue/2007/fall/15/>

