

Interview with Steve Goers and Nanako Mura

Open Innovation

Kraft Foods



Steven Goers is Vice President, Open Innovation & Investment Strategy at Kraft Foods. He is responsible for delivering external solutions for strategic consumer needs as an enabler to accelerate growth. His responsibilities also include Venture Capital investment strategies. During his career, Steve has held positions across the R&D organization including strategy, product development, new technology discovery, and breakout new product development in both the U.S. as well as England. Steve holds a PhD in Biochemistry & Microbiology from Rutgers University.



Nanako Mura is the Associate Program Director, Open Innovation at Kraft Foods. Previously she led the Innovative Applications group with the mission to create a culture of innovation and develop capabilities that translate into successful new products. Nanako has held positions in dairy products and meals. Before joining Kraft, Nanako worked at Pillsbury and P&G in the Beauty Care division. Nanako holds a B.S. in Chemical Engineering from Northwestern University.

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

Doug: Kraft has been on its open innovation journey for a number of years. Reflecting back on the past few years, what noteworthy advancements has Kraft made?

Steve: One area of innovation accomplishment is the capability and framework that we have built within the company. Another area would be examples of new products enabled by open sourcing of innovation.

Over the last two years, Kraft has made a more focused and organized effort to step up our open innovation activities. I would characterize this as evolution as opposed to a revolution. We have established a hub and spoke model. A centrally led team focuses on the overall strategies, the systems, the enabling tools and metrics. We have complemented that central team with R&D people embedded in each of the business units. These people focus on scouting and driving open innovation activities for each of their business units.

We have provided a good framework for engaging with external partners for open innovation. Our business units are learning to develop their key consumer need states. Kraft has put in place cross-functional teams in each of our business units to help drive execution against those consumer needs. We formed a "community of practice" representing both the core innovation people as well as the business units. We meet on a regular basis to collaborate and share best practices, and roll out new tools and training. Building these capabilities over the past 2 years has been a strong enabler.

Nanako: Our *www.InnovatewithKraft.com* internet portal is one of our newly built capabilities. It was designed to attract innovation from companies and entrepreneurs in an effort to help meet Kraft's needs.

Steve: We launched the website in April of 2006 as our portal for reaching unsolicited innovations. We have received a lot of submissions, approximately 70-80/month through the website. Many of those are not really what our group is looking for. They tend to be ideas rather than innovations, and many of them tend to be a recipe or new flavor, and not our primary interest. We route those ideas to other specialists in the company.

We learned to make the website much more focused and effective in reaching the potential innovator and/or small business. We have modified the website accordingly with more useful information about our strategy and approach. We now provide examples of recent launches, enabled by open innovation. We are providing information on needs that we are looking for, and we just relaunched in June 2008.

Doug: Let's talk about some of the new products that have come out, which you consider to be more of the game change that had not been possible under the Kraft innovation capabilities of two years ago.

Nanako: One big success is Kraft *Bagel-fuls*, a combination bagel and *Philadelphia* cream cheese, introduced nationally in the late spring. It is a solution for consumers providing convenience and portability, while leveraging our *Philadelphia* cream cheese quality and heritage. It came as an unsolicited idea from a third generation bagel maker with a niche market. It was a win for him because it became an opportunity to expand that product much more broadly, and it was a win for Kraft because it helped address some of the past technical challenges that we encountered with regard to the delivery of both a bagel and the cream cheese together. We expect this to be a big product.

Steve: This is a terrific example of an unsolicited innovation. It has a couple of key success factors. It came as a cold call into the company, with samples sent to various senior managers. One of the success factors was that it landed on the desk of someone who recognized its potential value to a business unit and surfaced it to that business unit. Another success factor was that it met a recognized need of that business unit, and that facilitated very quick engagement. This alignment with a business priority helped overcome challenges in the contractual negotiation and made it a win-win proposition.

A few other products just recently launched in our grocery division are our "All Out Squeeze" *Miracle Whip* and *Mayo*. Open Innovation led us to license a partner's packaging technology and apply it to our products. A consumer dissatisfier was the residual product that remained in the container. Now, a 24 oz "All-Out Squeeze!" container of Kraft *Mayo* typically makes 4 more sandwiches than the other leading brand. Kraft then added improvements to run on our lines at high speed.

Doug: If people don't recognize the enablers that they need corporate-wide, then those become deal killers. What other practical enablers have you put in place?

Steve: You're right. One of the enablers was having focused resources in the businesses with a role and scope for these relationships and deal making. The central group provided a knowledge base about building outside relationships and performing due diligence.

- Nanako: There is much more awareness throughout Kraft regarding open innovation and what it can bring. Previously we rewarded people for internally developing intellectual property. Now we are willing to license it and reward people for that. Previously, we rarely put together a mutual confidentiality agreement. Now, there is discussion around intellectual property, including ownership versus right to use. We are changing Kraft's mindset.
- Steve: Another enabler is a dedicated legal resource to help with contractual arrangements and thinking a bit differently. Our Legal department helps to make concepts reality. For example, our new flavor launches of *Triscuit* and *Wheat Thins* crackers are the result of Open Innovation with a key supplier partner that has given us access to new flavoring ingredients, formulation expertise and consumer insight, while enabling a significant reduction in time to commercialization. Examples include Triscuit Fire Roasted Tomato & Olive Oil and Wheat Thins Reduced Fat French Onion and Garlic & Herb. And, our *Bull's-Eye* Barbecue Sauce Guinness® Draught Beer Blend is the result of Open Innovation through a trademark licensing partnership that has given us access to new ingredients and licensed brands. And the concept works for packaging, too: our unique "Snack 'n Seal" resealable packaging featured on some of our most popular biscuit brands like *Oreo* and *Chips Ahoy!* was developed with the help of an outside supplier.
- Doug: When you are speaking of the evolution of open innovation, it sounds as though you are systematically attending to both providing enablers and removing obstacles.
- Steve: Another area I touch on is increasing the amount of innovation that we can derive from our supplier relationships. In years past, we would ~~not~~ have looked to our suppliers to provide an ingredient or a component. Now, we're actively looking to partner and jointly develop the actual finished product. Another aspect of our supplier engagement has been a process that we call the "Supplier Challenge." Rather than prescribe the specific product need, we look to identify the overall business challenge. We develop a challenge brief that is owned by the business unit, and then engage suppliers to innovate against that brief. They have a period of time to develop a finished product or package innovation. They come back to Kraft and showcase their potential solutions with the management team. Decisions are made on which of these ideas are going forward to final development and launch. That has been a best practice within the company.
- We've done over 100 of these challenges globally. Take for example, our *Jacobs Sinnfonie* coffee that's an important presence in Europe's super-premium coffee segment. Kraft employed the Open Innovation Supplier Challenge approach to enlist suppliers in developing an innovative packaging and display solution without compromising quality. It reinforced the brand's super-premium product positioning in record time – less than 6 months.
- Doug: Are there areas of open innovation that are different from product, packaging or process? For example, areas relating to channels of distribution, marketing campaigns, or consumer experiences?
- Steve: I would say that open innovation has the opportunity to cut across the entire value chain of what we do at Kraft, downstream as well as upstream.
- Nanako: We do believe that open innovation does apply everywhere in the value chain. Our successes have been more focused on the product and packaging and process, but

we aim to be moving toward that future. It would fall under the topic of what lies ahead.

Doug: What are some of the other future state opportunities that you are seeing? What capabilities are you going to need?

Steve: One opportunity area is being able to deliver, on a sustained basis, more than just incremental growth opportunities, but more disruptive and game changing opportunities. A needed capability is to expand and broaden our network so that we're reaching out to where all of the potential solution providers would be. We're making sure that we're searching the globe for potential partners to help meet our needs. Focus will become more important. With over 50 categories, we will need to focus on what to scout for, for each business.

To date, there's been more of an emphasis on developing the practices and tools and the demonstration of value in North America, where most of the Kraft revenue is. The road map for the future has Kraft not only globally sourcing innovation, but has us using partnership alliances to enter markets in a more global way.

Doug: Over the last several years of this evolutionary journey, what has surprised you? Where have your personal assumptions been overturned? Where have you misread external factors?

Nanako: We look for things that are ready to go first. It might be a ready to go product, or a ready to go package. It's something that already exists or some fully developed technology. I had this perception that if I found something ready to go, I could just push the button and be in the market very quickly. I discovered that 'ready to go' isn't really 'ready to go.' It requires a lot of internal support to adapt it and make it fit well within our business systems, manufacturing systems, and the Kraft requirements.

I have also realized that 'you have to go slow before you can go fast.' A lot of work has to be done upfront. You have to put together contracts, which can take a lot of time. Then, after you get over that hurdle, you will ultimately be able to get to the market faster, but in the beginning, it feels like you're going slower.

Steve: One of the things that surprised me was the length of time and the amount of communication needed in order to gain clarity and alignment within our company on our approach to open innovation. What is it? What is it not? Those of us who are doing this every day thought that was crystal clear, and it turns out that it wasn't as clear as we had thought for many business partners and functional colleagues. Actually, we are still working on this communication.

One of my learnings is the critical importance of making sure that the alignment with your partner exists in the partner's organization. As we work with some of these deals and look to form an alliance and relationship, we work hard to get alliance within our company on what we want and what the strategy and the approach will be. Then we talk with the representative in the other company about that and realize that there is not always alignment in that company's management. In addition to getting the actual deal, it's important that there's time spent on building the relationship and making sure that the cultures of the two companies mesh.

