



Think *breakthrough*
Achieve the *extraordinary*

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Interview with Mauro Pennella, Diageo

Mauro Pennella is Vice President, Global Ideation and Business Development for Diageo, the world's leading premium drinks business. Prior to joining Diageo, he was Marketing Director, Baby Care New Business Development for Procter & Gamble. He is a member of the Institute for the Future. He is becoming an accomplished painter and recently exhibited at his first gallery show. Mauro can be reached at mauro.pennella@diageo.com.

Interviewed by Doug Berger, Managing Partner, INNOVATE LLC. doug@innovate1st.com

Doug: Let's start with some of the key challenges facing executives in stepping up the level of innovation.

Mauro: The over-riding challenge in innovation is 'What role does innovation play in the intrinsic business strategy of the company? Is it nice to have because my competitors have it or is it not perceived as innovation per se, but perceived as a growth driver for my company?'

The second challenge is the need for short-term results which sometimes clashes with the patience to identify and nurture big ideas. Historically it took 16 years to make Bailey's what it is for Diageo. It took three or four years of development to make Swiffer® what it is for Procter & Gamble.

The third is the necessity to balance a portfolio. Portfolios tend to have a glut of incremental innovations or line extensions. However, if you neglect to plan from the outset to also look at the long-term bets, you will end up having too little of the incremental to make a target and too little time to reframe things.

The fourth major challenge is knowledge sharing or knowledge management. It is about raising the common knowledge of projects, doing bigger things and improving faster on the things we do. Every time an employee moves, a piece of the knowledge leaves unless it is captured and shared. But, beware, it is less about systems and processes and more about behaviors.

The fifth challenge is maintaining organizational flexibility. Corporations are cost conscious. When we create a group for innovation or we plan to invest in innovation, we tend to do it from a 'just enough' mentality. We look at the number of projects needed, the available resources and put in 'just enough.' This approach never really manages the peaks and valleys that exist naturally.

Lastly, launching new to the world brands is becoming harder and harder and more and more expensive. We may need to look at different business models or supply chain decisions. Acquisitions and partnerships such as contract packing, for example, can sometimes be the best way to answer the need for creating a new to the world brand for a new benefit and be the best way to manage the risk of investment.

Doug: Let's begin with your first challenge of innovation and its strategic place in the scheme of things.

Mauro: The starting point is having the hard conversation. If innovation is done right, it is an integral part of the actual growth strategy of the company. It has to be a CEO originated culture. It has to be a Board conscious decision. Then it is part of their thinking. They see innovation as one of the tools and solutions that they can use in order to create the growth. If you don't achieve that, then you are not integrated as one of the pillars for the business decisions they will make.

Therefore, you want to paint the very specific picture and the story around innovation and get buy-in at the highest level. It has to be elevated to the same level of conversation as that of a geographical business, business division or brand.

Once you've elevated that conversation, which is what was achieved for Diageo two years ago, it changes completely the vision. It also puts the spotlight on innovation, meaning that every two-three months they are reviewing our progress. This is good, because it is done with a solution-oriented mentality.

Doug: When innovation is a pillar of growth, how does that change the thinking on managing innovation?

Mauro: I think of innovation as a business entity as opposed to a function underneath marketing or R&D. Innovation is necessarily multi-functional. It must go across and above and beyond individual business functions.

I also believe that innovation needs to have some P&L responsibility in order to really drive both the short-term results required of the company, as well as manage the long term. By having that kind of tension and providing the P&L, you create a business-minded effort that thrives at delivering value.

Doug: You are drawing a distinction between innovation and research & development. Please say more about that difference.

Mauro: I have seen and will never dispute the strength of the research & development element. However, I always felt something was missing. We were always creating technologies that often answered major consumer needs but sometimes had to be retrofitted for those same needs, or we were trying to create consumer needs out of ones that did not yet exist. Secondly, I felt it was always one-angled as contrasted with a complete business approach. I advocate innovation groups be managed and led by business people. At the end of the day, they bring the overall strategic and business mindsets. That doesn't mean that product developers cannot do that. Actually, a lot of product developers are probably the best innovators to lead once they've captured or moved to that level of business acumen and that level of leadership.

Ask any CEO, 'Who do you want to have leading your innovation or working in your innovation department?' and they will tell you, 'Oh, I want creative people. I want thinkers out of the box.' My response to that is, "That's a good start but not perfect."

To be successful in innovation, and what I'm really trying to push for, is to have the most talented people of your organization go there. Innovation needs the people who can talk business with the best business executives, can talk

investment with the best of finance, and the people who have flair and creativity. We have to make the right business case that holds true across the lifecycle. Innovation should be seen as a passage once you're in the right career track.

Doug: Let's take a look at this challenge of short versus long term from the innovation perspective. What practical perspectives can you offer on how people can better manage that inherent tension?

Mauro: I think portfolio management and the choice of projects are the ways through. You need to look at innovation like a new start-up company. Imagine that I've been given a certain amount of money. In order to continue receiving money I need to justify that I can create value and pay the salaries at the same time as investing in the future growth of the company.

You count on the bread and butter of innovations to pay the bills; Tide® Plus Bleach; Tide Plus Bleach and Scent; Tide Plus Bleach Scent Free. They're the 1% extra market share. They can be quite cool and they can actually be quite ground-breaking. They ensure the growth of your base business.

Then, within the portfolio, I place a certain amount of long-term bets. If we crack those we've created another blockbuster with significant investor return, significant growth. If we don't, it's going to be painful for growth, but not fundamental to achieving a minimum growth.

We integrate the portfolio decision with the business and the brands. The big change is that instead of doing innovation and coming up with a solution, we integrate decision making very early on so that everyone is aligned. They know what we're working on. They know what we're delivering. And they're supporting us to deliver from different angles, investments, additional resources and sales. Unless you've got that up front, you run the risk of hitting the wall at different stages of the lifecycle.

Doug: When you look to create something that reframes a category it requires a leap of perception. Please speak to this point.

Mauro: It requires even more rigor in the questions that you ask about the project, and in particular, those that you ask yourself. It's not only about the coolness of an idea and the intuitive feel that it is right and big. You start building this idea and you see where it goes. You start seeing a beginning and a business model. You can see how to launch it. You can see some of the marketing you can do and the flair that the idea can have. You've started from an idea and you've already created a world around that idea. But unless you're able to express that world, nobody else understands it.

When I am looking at the long term, I tend to be more rigorous about the business model. Why would some product that today sells 10,000 cases in Brazil, sell globally two million cases in the future? I need business-grounded assumptions. It's about the idea but it's also about the business model. It's about, how will this be a strong, sustaining business proposition?

Doug: What barriers have you have run up against?

Mauro: The baby wipes business of the Pampers® brand was a good example of a type of barrier. Sometimes a barrier can be just difference of opinion. It's not based on facts. It's a position from a high level decision maker who says "Pampers is about dryness, so we're not going to do a WET wipe." end of conversation. Then again, innovation is about resilience. It's about knowing

that you have something and knowing how to elevate the conversation to the bigger picture. Once we came back and elevated the conversation by changing Pampers to an overall baby care brand and benefit, that opened up everything else underneath.

Kandoo[®] is another project. Its origination is a funny story. I was in charge of the baby care new business development, which consisted of just me for a couple of months and then grew to about 70 people. I had a daughter who was three years old and I was watching her taking a bath. She was going at a rate of about a bottle of shampoo a day. So the spark there was, 'Well, I'm actually trying to teach my daughter to clean herself, but I'm not giving her the right tool.' I talked about this concept to my team, and we did some consumer exploration to confirm that the need existed. Kandoo was born. Kandoo's original aim was to be an ergonomically designed personal care solution for kids three to seven years old.

Some of the barriers I face when I talk about an idea depend on the visualization or experience I bring to the idea. If you talk about it on paper, people often do not visualize it the same way you do. So, it's about getting over the barrier of perception of an idea and making them understand the business potential. When you can prototype something very quickly or when you can show kids using it, it makes people understand. If you cannot express it in a way that senior management understands and buys fully into it, you create more questions. This may kill an idea before it is even thoughtfully considered.

Doug: Passing the project from the people who have lived it from day one, to the group who takes it and integrates it as a part of their portfolio, is usually very dramatic. How do you manage this passage and avoid the hits that innovation can take?

Mauro: Initially, we had a brand innovation group, which explored market areas, created the ideas and came up with conceptual and fully prototyped solutions. But then we had to pass it on to the local geographies that would then supply, sell and do the marketing. The passage was usually very hard.

Two years ago, Innovation became a global entity with geographical arms. We were fully financed from the beginning through the first 6-12 months of launch. We were expected to be financially sustainable. We had the people we needed and use of all the systems within the corporation.

We now have one group of people who carries the idea from its conception to the marketplace. Therefore, those passages no longer exist. You don't create artificial bridges. You are harder on yourself. You ask the tough questions. At the end of the day, the investment we're making here is comparable to any other investment.

Doug: What do you think are the important competencies or attributes of business innovators?

Mauro: The famous innovators have always been people who are more than just creative. First, they are sponges sponges of data, sponges of knowledge. Second, they are connectors, able faster than anybody else to connect the dots. And third, they have flair. They intrinsically understand the business and what can work.

At the outset there is a business proposition and they possess this ability to allow a complete business picture to emerge. You see the whole picture very

quickly, and over time the picture gets more specific. This is a very different skill set than in much of the corporate world where the thinking is very vertical, very detail oriented. Another key attribute is the communication ability to bring the concept to life.

Over time I started to be a little bit more critical of myself, and to be fair, I was helped by the constructive challenge of my management. My thinking originated from my intuitive feelings about an idea ... I'm in love with the idea, but because it also makes sense I love this idea because it's technologically advanced... I love this idea because it actually makes more money than the current product..... I love this idea because it allows me to capture more of the hearts of the consumer. Then I started to add layers of the business mind around it.

I can still quickly raise my heart to an idea, but now I add the experience and the development, and *that's* why you want experienced people to do innovation. Very quickly I can see the layers of the onion around the concept that starts making the business picture. I'm not right all the time. I mean, I may be completely wrong because sometimes still the heart plays a big role in the innovation. But, it's about balancing the ying/yang of the heart and the mind. If you don't do that you're just an idea creator, but with no business sense. If you're just the business type, you can only understand and see your business growing with the normal step-by-step "tick the box" approach and are not able to create additional value.

Doug: We've talked so far about internal innovation and how it fits inside the organization, and the corresponding barriers. I'd like to touch also on the external.

Mauro: There must be simplicity in the concept of the idea ... what is it about? Unless you're able to say what it is in less than a sentence, consumers will not understand. If people are not extremely versed in the idea, you've got about half a second to get their attention, in a way that they understand.

Focus groups work. Quantitative research settings where they've got time to think about it, work. However, once they are in the store and they see it for the first time, does it speak to them or not? And if it doesn't, that's bad. If it does, does it speak to them in a way that is clear and simple to understand?

The bigger you make the launch, the bigger the risk. In order for us to minimize that risk, we are now increasing our effort in small, real life incubation; put it in front of real consumers in a real setting with a real decision process. Let it go. Let's say, for example, that the product is the color blue. If you put it in a glass with ice cubes in a bar at night, it looks transparent. Somehow you've lost the concept in a real world setting. Or perhaps, people don't like to be seen with this drink in their hands. It's either too masculine for a woman or it's too feminine for a man. These types of deal killers only come to light by putting the product in a real life situation.

Doug: How do you do it in a very cost effective way without having to do a national launch or launch out to the country first? How do you do it in a way that you protect them and their learnings and don't give up too much to your competitors?

Mauro: There are things you can do. You do it in other countries. You recognize that you need to learn in real life situations. You're not going to get all of the answers, but learning in real life should provide you enough of the immediate information to go and push the big button very fast. If internally you need so

much time to make the decision, then do you have the urgency? If we are so advanced into an idea that we put it into the market and we believe that our competition can actually replicate it in less than three months, then either we are not going fast enough or the concept isn't big enough. This is a mentality we are cultivating.

Doug: Mauro, thank you. You have painted a very vivid picture of real-time innovation challenges facing leaders today and your unique perspectives and brand of thinking to address them.

Velcro Points

1. Elevate the conversation so that innovation is a growth driver.
2. Run innovation as a business.
3. Elevate new-to-the-world innovations as strategic to growth.
4. To reframe a category you must create a leap of perception.