



The Innovators

Conversations

on the *Cutting Edge*

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Interview with Dr. Stephen King Portfolio Manager and Head of Innovation Support Nestlé R&D Orbe, Switzerland



Stephen is responsible for Portfolio Management and Product Innovation processes at the Nestlé R&D Orbe Centre, located near Lausanne, Switzerland. He joined Nestlé in 2000, and worked for the next 8 years in operations management in Indonesia for Nestlé's global Breakfast Cereals business, and led a global Quality Improvement program from the Centre. Previously, he spent 10 years managing manufacturing and supply operations in the UK and Italy for Procter & Gamble. Stephen has a Ph.D. in Engineering. He can be reached through mediarelations@nestle.com

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

Doug: What is the focal point for advanced innovation at Nestlé?

Stephen: We call it hitting the Innovation Sweet Spot and we are looking to capture value along four different themes. The first theme is about adding Consumer Value. How do we actually meet the stated or the unstated needs of the consumer in the nutrition, health and wellness business? How do we add new value for them that is not being provided by both competitive products and our existing products?

The second theme is having our research engine create proprietary, competitive science and technology to meet that consumer need. The third theme is developing attractive business models for Nestlé, which add stakeholder value. And finally, the fourth theme is operating in a way that is socially and environmentally sustainable, long-term. Nestlé has manufacturing facilities around the world and we aim to create sustainable shared value for both the local economy and local community.

Every time we create innovative products that are able to satisfy all four themes in concert, we see the opportunity for our biggest successes. For instance, we are successfully working on environmentally friendly packaging with a proprietary know-how. This is giving the consumer affordable single serve packaging while working with local suppliers in a very attractive business model, and employing people in the local community in our sales and distribution channels, as well as in our

manufacturing facilities. In the end everyone benefits – a good example of hitting the Innovation Sweet Spot.

Doug: Our readers would be particularly interested in how Nestlé is innovating to create move-the-dial growth. How are you building new billion dollar brands or taking an existing brand and expanding its market reach dramatically, as distinct from incrementally?

Stephen: We have an excellent example of that. Nestlé made a strategic decision to launch Nespresso as an independent business. Nespresso was allowed to grow with its own financing and resources in the early years. Year after year the volumes grew as consumers began to recognize the value, quality and attractiveness of the product, turning it into a big global success story. Today Nespresso is one of our billion dollar brands.

The type of leadership capabilities you assign to growing businesses such as Nespresso is extremely important. You need the right balance of entrepreneurial and creative capabilities, alongside execution capabilities.

We can see much more of this innovative thinking coming out of the Innovation Partnerships program. Over the last few years, Nestlé has developed a number of strategic collaborations with big suppliers, where we are able to benefit from each others' skills and know-how to drive innovative projects. Equally important, we have developed a number of productive relationships with respected universities and smaller start-up type independent companies. Overall, our Innovation Partnerships portfolio is balanced and we look forward to innovative breakthroughs coming from these investments.

A challenge faced by companies working together on innovation projects is, "Who owns the intellectual property?" and "How do we protect ourselves against competition when dealing with 3rd party companies?" One of the big changes in research and development over the last few years is the realization that Innovation Partnerships and productive outside collaborations drive big ideas. In Nestlé, we are improving our understanding of how to both make these collaborations work and strengthen our innovation portfolios.

Doug: In the very early stages of looking at a bigger idea, how do you evaluate it for its potential bigness?

Stephen: The interest that we experience from the Nestlé markets is a strong indicator of potential future success. Our Markets are very close to our Consumers and have a strong understanding, both from quantitative and qualitative methods, of what the Consumers want. Several times a year our markets, businesses, and R&D meet to review innovation pipeline progress. We gauge their interest and the fit with their strategic direction and the marketplace challenges. And wherever possible, we do some bench scale or rapid testing, and we get valuable consumer insight into whether these ideas can support our top and bottom line growth model.

Doug: My orientation is one of big innovation being a creative process that does rely on the savvy, imagination, and passion of people.

Stephen: I'm glad that you feel that way. Spotting the big winners has far less to do with your tools and systems, and far more to do with the leadership and type of environment that you foster. In Nestlé, we have a climate where our people are

encouraged to experiment. A lot of success comes from experimenting, learning from mistakes and setbacks, and always striving to get it right.

Doug: Many organizations, as they became more mature, become highly process oriented. How do you foster a culture of creativity and bring entrepreneurship back into the workplace?

Stephen: What you describe is a challenge for many large organizations; it is important to recognize it and take actions to ensure that the organization remains creative and entrepreneurial.

In order to maintain a positive sense of urgency and focus, Nestlé R&D management performs benchmarking visits with colleagues from other non-competitive companies. In very open and participative sessions, it is possible to compare the different innovation management approaches. Regular key themes that come up include: the allocation of a large amount of time to ideation and creativity to try and explore new ideas; techniques to minimize administrative activities; how to better understand the Consumer and drive ideation brainstorming; how to manage the process of making the approve or kill decisions on projects, etc.

Doug: How is Nestle evolving beyond its traditional yet highly successful ways of doing business?

Stephen: First, the Innovation Partnerships program, with the strong sponsorship of our chief technology officer, Dr. Werner Bauer, is definitely having a positive impact on the Nestlé approach to innovation. In our Orbe Product Technology Centre (PTC), which innovate's the Nestlé soluble coffee, beverages, and cereal businesses, we have an increasing number of projects with external innovation partners, and these are making very satisfying progress.

I would also say that our organizational setup evolves to meet that challenges of the businesses in which we compete. Our global businesses categories are run by a diverse group of people, including strong representation from R&D. They are based at our corporate headquarters in Vevey; they're called the Strategic Business Units. In this way, R&D has more consultation and a greater strategic input in the direction of our brands.

We are also in the process of reorganizing our research center in Orbe. We are creating autonomous working teams aligned with the portfolio pipelines of the Businesses. Each has science, packaging, product development, quality, engineering, and intellectual property and is co-located and works together on common project objectives – namely the effective launch of new products into the Marketplace. This organizational change further accelerates the diversity of thinking, the diversity of collaborating, which is alive within our research center, ultimately benefitting the consumer.

We are also testing novel and inventive ways of reaching out to consumers. A recent success story: we were trying to perform some early prototype consumer testing in one of our businesses for consumers in the Central West Africa region. We could have flown a team out to Central West Africa and have done some consumer testing there. Instead, and this was where we benefitted from diverse thinking, we had some people from Central West Africa working in our research center, and they reached out to their friends and acquaintances now living in Switzerland. We reserved a restaurant in the city of Lausanne for an evening, and performed consumer testing with a representative population of the Central West

Africa region, just through our network and through our collaborators in our research center. The value we got from that session, and the experience, was beneficial to our project and enabled us to test various hypotheses. This is a good example of adding consumer value while being efficient and effective in our innovation process.

Doug: As part of Nestlé's organic growth effort, can you give us some examples of new business model type innovations that you've been successful in bringing to market?

Stephen: Through the experiences of building the Nespresso business, Nestlé acquired a lot of skill and mastery in terms of machine design and capsule design. Nestlé decided to launch another product, but to make it a lot younger, trendier, funkier, and introduce the element of milk-based products, as well. Nestlé built a new business under the Nescafé brand, called Dolce Gusto. This is another business success story for Nestlé.

Doug: In bringing our conversation to a close, is there anything else that you feel passionately about, which you'd like to share with us?

Stephen: I believe that you're right on track when you talk about one of the most important challenges of any large and complex organization being the balancing act between low, medium and high risk projects with the portfolio. It is known, and various studies have demonstrated, that around 90% of the new shelf launches in the food and beverage industry over the last five years can be classed as either line extensions or product renovations. In fact, only about 10% are truly innovative. However, it has also been shown that about 80% of the new value creation comes from the innovative launches. A lot of the renovations eventually get delisted or de-shelved, and there is a smaller amount of new profitability coming out of them.

So profitability comes from launching bigger, better, bolder, more innovative products. Companies like Nestlé are therefore well placed to capitalize on these opportunities.

A final key area I'd like to spend a moment on is the role of project management, and the competitive advantage it can bring to the world of product innovation. In Nestlé's experience, and also in my personal experience within supply chain and operations, we regularly observe that great projects are delivered by the most outstanding project management skills - the people who can see and anticipate the risk, prepare for contingency before hitting the problem, understand stakeholder management, and have the communication skills to manage stakeholder expectations, critical-path and project planning, etc. In summary, outstanding project managers are a "must have" ingredient to any successful product innovation, and Nestlé is increasingly recognizing our project managers because they bring competitive advantage to our organization.



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