



# Innovation excellence

Attaining sustainable growth

To say it simply, we see innovation as the translation of ideas and inventions into profitable offerings for customers. Your ability to manage innovation is vital to fueling a winning portfolio of offerings.



## What is innovation?

Effectively managing innovation requires an ability to make trade-off decisions and to decisively execute on them. Companies that innovate best have critical capabilities in areas including:

- Foresight that reveals the market landscape and launch windows
- Portfolio strategies that position the company to attain desired growth
- Project investment decisions that minimize investment waste
- Innovation processes, organizational structure, metrics and incentives to drive execution
- An extended ecosystem to share synergistic capabilities and risks

Managing innovation is a holistic challenge that requires an end-to-end perspective bridging strategy and execution and spans processes from ideation through delivery. We have developed a set of comprehensive solutions in each of these areas to help companies identify areas of improvement and to implement best practice solutions that produce real results.

## All innovation is not the same

Winning innovations start with good ideas. The trick is establishing how to filter through the plethora of inputs to harvest these “good” ideas. We find it is useful to establish a framework that supports categorizing ideas into groupings that help innovators understand the types of offerings needed in the portfolio and the

Core offerings	Adjacent offerings	Transformational offerings
Business model innovation		
Operational innovation		
Offering innovation		

nature of the innovation needed to ensure the offerings are competitive.

The figure above illustrates this concept and is important for three reasons:

1. The skillsets needed to produce the best innovative ideas vary among offering types (core, adjacent and transformational)
2. The most likely source and role of the best innovative ideas vary among the nature of innovations (offering, operational or business model)
3. The achievable time horizon for executing on approved ideas varies among idea categories and must be evaluated using different criteria

In summary, if you are looking to evolve your portfolio mix, it is important to involve people who have the right skills to provide insight to the types of innovations most useful to the company portfolio, and evaluate ideas using appropriate criteria for the category.

## Closing the performance gap

What if your portfolio of offerings is unlikely to reach the targeted company growth plans? This all-too-common situation usually occurs because of:

- A portfolio strategy that results in investment projects that are too heavily weighted to the core offerings of the past in an attempt to satisfy risk and revenue timing considerations
- An operational execution approach that biases investment projects towards smaller short-term improvements without a balance of longer-term strategic “earnings engines” projects

Correcting the course requires decisive and aligned action that can be more readily attained through the following actions

1. **Market foresight** that reveals market opportunity and windows based on better and more complete data
2. **Portfolio strategies** that position the company for targeted growth in each category
3. **Project selections** within portfolio categories that minimize investment waste
4. **Innovation processes**, structure, metrics and incentives that drive execution
5. **Organizational structure** including an explicit extended ecosystem to share capabilities and risk
6. **Technologies** to enable and enforce innovation discipline among cross-functional teams

## Why organizations struggle

Typical root-cause challenges to effective innovation

### 1. Time to market

Aligning product introduction to market readiness

#### *Too late to market*

Offerings are introduced too late to capture price premiums and position for mass market growth. Leaders often describe market timing issues resulting from inadequate visibility or failure to react to stagnant business models, disruptive alternatives, external market or regulatory constraints, or internal execution issues.

#### *Too early to market*

Though faster time-to-market is generally desirable, it is possible to get to market too quickly. The result is sluggish sales that can cause a lack of commitment to scale the launch and increased window for competitive “fast follower” penetration.

## 2. Portfolio strategy

Investing in the right projects

### *Misaligned portfolio*

When your portfolio does not match your business strategy.

### *Unbalanced portfolio*

Occurs when your product mix does not match portfolio targets.

### *Funding misalignment*

Funding mechanisms are the same for core and transformational lines and there is too little innovation funding.

## 3. Focus or innovation identity

Focusing innovation beyond current products

### *Ambiguous ambitions*

Companies struggle to gain an overall understanding of and align innovation efforts to the company strategy, while establishing a "drive" or "enable" innovation culture.

### *Lack directional boundaries*

Inability to effectively articulate set boundaries to help people understand the type of innovations that best contribute to targeted performance.

## 4. Organizational structure and adoption

Establishing a structure and reward culture

### *Misaligned decision structure*

Innovation is hindered when roles and responsibilities are misaligned with innovation ambitions or when roles, funding and resource allocation simply do not exist. The result is often unclear decision ownership and inefficient transition to action.

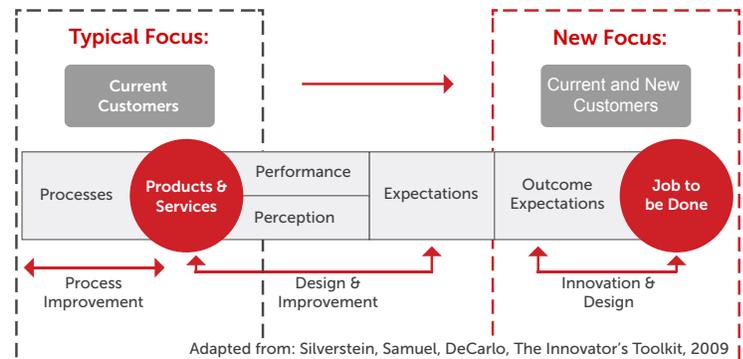
### *Encumbering corporate culture*

The wrong structure and culture can lead to an unclear "drive" versus "enable" leadership paradigm, a solution focus versus "job-to-be-done" focus and protectionism leading to functional silos or internal only participants.

## 5. Ineffective innovation process

Root cause of many issues

## Focusing innovation beyond current products



Strategic Ambition	Core	Adjacent	Transformational
Inventory Implication	Make the same Product Cheaper and Faster	Make the Product Better or Combine	Replace with a new Product
Strategy	Profit Bias	↔	Growth Bias
People & Skills	Integrated with Core	↔	Separate from Core
Funding	Product P&L Cash	↔	Separate funding
Pipeline Management	Project Review at Gates	↔	Non-linear Evaluation
Metrics	Economic & External	↔	Non-economic and Internal
Resource Allocation	70%	20%	10%
Total Returns	10%	20%	70%

How do I focus my innovation efforts to get better win rates and reduce waste?

- Segment the portfolio and set targets appropriate to each segment
- Seek and evaluate ideas spanning business model, operational model and offerings
- Establish innovation structure and process to manage all types of innovation
- Incent participants to break free from "business as usual"

### *Innovation process definition*

Effective innovation is hindered by weak process standards, documentation, and management; processes that are a one-size-fits-all approach; cross-functional misalignment and role ambiguity; and redundant or broken process from M&A.

### *Innovation process execution*

Execution is impacted by unclear decision criteria; complexity, redundancy, or lack of rhythm that slows activity; and a lack of adequate information needed to make decisions or incentives to reward core activities.

How do I correct a "core heavy" portfolio mix?

- Align on portfolio ambitions and business model direction among the C-suite
- Improve industry foresight structure and involve external participation
- Build separate teams to focus on difficult jobs (not offerings)
- Evaluate make, buy, partner options to address gaps

### *Innovation process isolation*

Isolation occurs when innovation is disconnected from strategic processes and external inputs are not incorporated.

## 6. Inadequate performance management

Lack necessary KPI's, visibility and decision triggers

### *Incomplete performance management framework*

Companies often simplify performance metrics and incentive plans. The resulting "one-size-fits-all" approach focuses innovation activity too heavily on near-term financial and low-risk options.

### Limited visibility

Inability to capture, relate and act upon performance data as projects mature from early ideation through to delivery.

### Unproven measures

Performance targets are set without appropriate competitive benchmarking, correlation to the appropriate type of innovation sought and considering actual timing of market windows.

## 7. Enabling technology gaps

Evolving and disconnected innovation solutions

### Lack of an integrated innovation platform

The rate and momentum of innovation slows as participants become frustrated by friction created at the “seams” among disconnected technologies. The iterative nature of innovation activity gets stifled by unwillingness to manage the “administration” activities.

### Innovation technologies are not the part of enterprise innovation fabric

Gaps emerge when emerging capabilities (such as new applications, social media platform, big data insights, etc) leave insights out of the innovation process.

## Our innovation capabilities

**Breadth and depth to deliver complete solutions**

### Strategy

- **Industry foresight:** Assess, define and understand market trends and competitive positioning in order to set strategic performance targets
- **Portfolio strategy:** Set portfolio mix targets, evaluate opportunities and establish an offering roadmap to attain desired mix
- **Strategic alignment:** Align on strategic process area touch-points, innovation organization design, and execution enabling IT platforms roadmap

## Process improvement

- Assess and align on innovation process scope to attain desired business results
- Identify and prioritize innovation process gaps and decide among alternatives on what improvements to pursue
- Design, develop and deploy streamlined process improvements to attain desired results

## Organizational design

- **Assess:** Assess the current state of the organization, decision-making structure and alignment of culture to innovation ambitions
- **Refine:** Design the recommended organization and decision-making structure with vertically and horizontally aligned roles and responsibilities.
- **Transform:** Develop and deploy the messaging, incentives and learning programs to ensure adoption of the recommended innovation solution with the pilot team

## Performance management

- Assess and align on innovation performance gaps management framework
- Identify and prioritize innovation performance and strategic options
- Design, build and execute a performance management program focused on improving performance through improved innovation

## Technology enablement

- Assess and prioritize technology gaps that need to be addressed in order to achieve the targeted innovation maturity goals
- Implement integrated capabilities to support a sustainable innovation process
- Validate high value capability recommendations

## Strong partnership ecosystem

- **Hitachi Ltd. sister companies:** Nearly \$5B in annual R&D spend and more than \$100B in revenues afford Hitachi Consulting unparalleled insight into industry trends, innovation processes and the products Hitachi Ltd. takes to market.
- **“Internet of Things” (IoT) solutions ecosystem:** Rapidly expanding ecosystem partners that are capable of developing end-to-end turnkey IoT solutions can be incorporated into our client portfolios more quickly and with reduced risk, rather than developing or purchasing similar capabilities.
- **Technology platform providers:** We invest heavily in partnerships with leading technology providers such as Oracle, SAP and Microsoft. These investments help us better advise clients on how to take advantage of new enabling technologies.

Contact Hitachi Consulting to discuss how our solutions can help transform your business.

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