Beyond the Product: Rewriting the Innovation Playbook
Innovation Driven Growth: Identifying the distinct categories of innovators, the different results they achieve and how implementing a new, leading approach to innovation can drive 3%-7% greater returns

Innovation priorities are changing. In a recent survey, Accenture found that 42% of companies say improved customer experience is where they’ve seen the greatest success from innovation in the last two years. The survey shows that leading companies today focus on much more than developing a differentiated product and service. Instead, leaders are creating more value by delivering differentiated customer and consumer outcomes, higher value solutions and enhanced experiences. This is true for more than just ‘digitally-intensive’ markets. Leading businesses across all sectors are rewriting the playbook of how they innovate and organize to drive growth. And they are seeing the results: leaders are achieving between 3.5% and 7.0% higher revenues that are directly attributable to these new and better approaches to innovation, product development and solution development. This translates into up to $1 billion annual revenue uplift, depending on the specific industry.

Succeeding in the 'New': a decisive shift from 'product push' to meeting the demand for the total experience.

How value is created is shifting away from supply-side models focused on product features, choices and enhancements—the ‘build it and they will come’ approach. Today’s world requires agile and open demand-driven value creation that offers customers new dimensions of service and experience to anticipate and meet their fast and frequently changing needs. And to succeed in this new world, companies have to get ahead of those trends.

And to succeed in this new world, companies have to rethink and evolve their innovation ‘DNA’. Achieving that cuts across operations and collaboration with customers and partners. It requires a new lens on competitors and culture along with the ability to operate in more open and fluid ecosystems. And it demands the ability to master multiple development lifecycles running simultaneously at different speeds.

Mapping new innovators’ DNA

Success in the digital future rests on a new approach to innovation. This combines the power of superior insights, digital platforms, and total innovation solutions to deliver customer experiences with new, digitally-enabled value propositions. Innovation is often described as being the DNA of a business: the deeply encoded and integrated combination of factors that enable a business to delight its customers and outperform the market. Like its biological equivalent, recognizing that innovation DNA exists is one thing. But understanding precisely how it works is quite another.

Accenture’s analysis breaks down the components of innovation’s ‘DNA’ and creates a picture of four distinct categories of characteristics (as shown in Figure 1).

The leading innovators – ‘Early Innovators’ and ‘Value Makers’ – differentiate themselves not only by what they focus their innovation on but also how they go about innovation itself. And this is not a change that can be measured in small increments. It’s nothing short of a totally new mindset and approach to how value will be created from now on.

Customers and consumers increasingly make their selections according to new criteria based on outcomes, solutions and experiences. Companies’ success will more and more hinge on how well they can change their innovation approach to meet those new customer needs. Accordingly, Accenture’s model has quantified the economic and financial impact of distinct innovation practices, thereby confirming a correlation of companies’ innovation capabilities with their financial performance:

• Innovation and Product Development Capability Maturity: the x-axis, rates a company’s innovation maturity. The further a company places to the right denotes higher-performing innovation capabilities.

• Return on Innovation and Product Development Investment: the y-axis, the measure of financial and innovation performance outcomes. The higher on the y-axis denotes better performance outcomes (e.g., financial and operational outcomes).

• The relationship between those two axis’ enables us to position companies in one of four quadrants as shown below. Taking all respondents, we can see how companies are currently positioned (as shown in Figure 1).

Survey approach and methodology
Accenture analyzed the innovation practices and value performance of 351 businesses from the Global 2000 across eight industries (automotive, industrial equipment, consumer goods, medical devices, enterprise technology, consumer technology, communications technology and software) and nine geographies (US, Canada, UK, France, Germany, Italy, China, Japan, South Korea). We interviewed Chief Technology Officers (CTOs), Division Presidents and Division Vice Presidents (VPs) of engineering and innovation, or their equivalent. The results confirm a clear, empirical correlation between distinct innovation capabilities and company growth. Leaders benefited from a 3.5%-7.0% annualized revenue lift and a corresponding operating income growth compared to their industry peers.

Leaders were identified as the top 20% of all companies as defined by their industry-specific financial performance along with their advanced innovation approaches and capabilities.

1 Accenture Innovation Driven Growth Survey, 2015
Early Innovators and Value Makers drive an accelerated path to outsized returns from their innovation and R&D capabilities. The well-trodden path to innovation (more and improved product features) will no longer take companies where they need to be if they have ambitions to be what Accenture defines as true ‘Value Makers’—the leaders in harnessing innovation to drive business growth. These Value Makers find new ways to connect with customers through platforms and ecosystems, in which the product or service is just one dimension of a much larger value proposition.

Each of our model’s four categories reflects distinct characteristics. Making the move from one quadrant to another require specific actions. We are able to make some distinct recommendations about the journeys that companies must pursue and the capabilities they need to put in place to transform how their innovation strategies can secure business growth in a new, and very different market environment.
What industry executives tell us: characteristics of highly effective innovators

Executives reaffirm that Early Innovators and Value Makers are high performers: by definition they will see higher return on investment and enjoy greater market share than their peers. But our survey also reaffirms that more investment in innovation does not necessarily mean higher returns. We asked companies how they were categorizing their allocation of innovation investments today. The results show Early Innovators and Value Makers and Market Share Protectors and Efficient Executors have much the same innovation investment profiles. The difference between them? Early Innovators and Value Makers are generating significantly higher results: a 3.5% - 7.0% annualized revenue lift and a corresponding growth in operating income compared with their industry peers.

To further understand the innovation DNA of Early Innovators and Value Makers, our survey can uniquely demonstrate the quantifiable difference in high performance, and the distinct strategic decisions that these innovators make compared with Market Share Protectors and Efficient Executors that helps them achieve it.

It should be no surprise then that Early Innovators and Value Makers, and Market Share Protectors and Efficient Executors focus on different capabilities that they feel are most important to positively drive innovation and R&D performance (see Figure 5).

Figure 3: Early Innovators/Value Makers are three-times more likely than Market Share Protectors/Efficient Executors to achieve significantly better results in:

- Identifying insightful customer/market trends
  - Early Innovators/Value Makers: 52%
  - Market Share Protectors/Efficient Executors: 16%

- Incorporating "digital" as part of the customer experience
  - Early Innovators/Value Makers: 53%
  - Market Share Protectors/Efficient Executors: 21%

- Achieving more successful product introductions
  - Early Innovators/Value Makers: 34%
  - Market Share Protectors/Efficient Executors: 12%

- Being faster to market
  - Early Innovators/Value Makers: 58%
  - Market Share Protectors/Efficient Executors: 18%

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Figure 4: Early Innovators/Value Makers are three times as well prepared than Market Share Protectors/Efficient Executors to leverage Product-as-a-Service opportunities

- Early Innovators/Value Makers: 24%
- Market Share Protectors/Efficient Executors: 7%

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Sources of innovation and Digital customer experience – survey definitions

2Sources of innovation are how ideas for new products or services are obtained and gathered from a wide variety of sources, both internal and external. Some examples include academia, crowdsourcing, engaging start-ups, hackathons, technology monitoring and scouting, venturing.

3Digital customer experience describes how the customer experience incorporates digital technologies, offering a digitally-enabled business model (for example the Internet of Things).
Bosch’s Internet of Things (IoT) Cloud
Bosch has launched its own IoT Cloud for web-based services in which it runs applications for its connected mobility, connected industries and connected buildings businesses – with the stated aim of entering completely new fields. Bosch’s IoT Cloud provides a huge variety of connected services that range from enabling consumers to reserve a parking spot prior to arriving at their destinations, to remote troubleshooting for heating engineers, and to providing farmers with exact understanding of ground temperatures in order to improve harvest and yield.

Intel’s expansion into drones
Intel is spurring the development of new products that use its chips to expand the market for semiconductors. It has entered the drones business through a series of acquisitions and continues to invest in drone technologies. Intel acquired Ascending Technologies in January 2016 following its $60 million purchase of Shanghai-based drone and aerospace company Yuneec International. It has also made investments in other drone companies, namely Airware and Precisi’

Carestream’s connected imaging and informatics solutions
Carestream is expanding its value proposition well beyond centralized imaging departments, making its imaging and informatics solutions available to areas such as orthopedics, intensive care, emergency department, intra-operative and bedside imaging. The company is using its technologies to create wider healthcare collaboration and information sharing capabilities.

Engineering innovation effectiveness: What needs to change

Our analysis shows that Early Innovators and Value Makers are achieving big payoffs from some distinctive innovation capabilities. Others who seek to change their own strategies and move their performance to the highest value creation quadrant will need to make some significant changes to current models. In Accenture’s view, that means building a concurrent innovation model. And that model rests on three main pillars:

Be solution-centric
with services, experiences, hardware and software all connected together and centered around the customer. The playing field is no longer flat, and the race is not in a straight line. The new world of competition is multi-dimensional. So while businesses clearly must continue improving and augmenting their products and services, at the same time, they need to focus broadly and deeply on the ecosystem of experiences and connections they support and provide. That requires a major realignment whereby business unit silos cease to exist and R&D, Engineering, Manufacturing, Supply Chain, Sales and Marketing are all equally accountable for Innovation. Tellingly, twice as many leaders in our analysis (34%) say that they already do this compared with the overall results of the survey (17%). And as Figure 7 illustrates, a mindset shift is required where implications for innovation driven growth are no longer linear, but a continuous, dynamic and agile model.

Build an insight platform
that creates new revenue through continuously renewing combinations of products, services and experiences that dynamically change and quickly adapt. Knowing the customer and consumer has always been vital. But in this multi-dimensional landscape of balancing product, service and experience, true differentiation comes from being able to go beyond asking customers what they want and instead dissecting and executing to customers’ and consumers’ unmet needs. This is the life-blood of Value Makers. Accordingly, our survey shows that 63% of leaders are today making improvements to their advanced analytics to better understand the customer/consumer. And 31% of leaders have plans in the very near short term (1-3 years) to do the same.

Drive pivotal leadership
that orchestrates, activates and influences enterprise-wide change; leaders at the helm capable of seeing value where others can’t, setting the right course and charting progress. Our survey points to two clear characteristics that Early Innovators and Value Makers get right: they set the right vision and they establish the metrics with which success can be assessed and monitored. What’s more, our survey also confirms that they prioritize key areas above others, placing an emphasis on, strategy driven product management, leadership vision and program execution.

Metrics of success in the “New” cannot be the same performance indicators used in past innovation playbooks. For example, time to market – a leading indicator for businesses operating in the traditional product-centric vein – is no longer a source of competitive differentiation. It’s merely table stakes. Businesses that focus on improving time to market are already being left behind. Early Innovators and Value Makers understand the need to operate at multiple speeds simultaneously, reflecting the very different requirements of digital and traditional product and service innovation cycles.

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Figure 6: Respondents in the survey were asked to prioritize the top five most important aspects of existing and new customer/consumer insight methods that enable growth and innovation strategy.

<table>
<thead>
<tr>
<th>Early Innovators/Value Makers</th>
<th>Market Share Protectors/Efficient Executors</th>
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<tbody>
<tr>
<td><strong>Top 5</strong></td>
<td><strong>Top 5</strong></td>
</tr>
<tr>
<td>1. Insights from crowdsourcing or external user data</td>
<td>1. Trend monitoring and forecasting</td>
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<tr>
<td>2. Online research tool</td>
<td>2. Tailoring to global markets</td>
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<tr>
<td>3. Ethnographic research</td>
<td>3. Big data mining</td>
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<tr>
<td>4. Social media listening and integration</td>
<td>4. Channel insights (distributors, retailers)</td>
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<td>5. Channel insights (distributors, retailers)</td>
<td>5. Competitor insights</td>
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Time to play catch-up

The results of our survey show that Early Innovators and Value Makers continue to develop distinctive and dynamic innovation approaches and capabilities. In other words, they’re constantly rewriting their innovation playbook. Companies that seek to catch up need to take note and begin redrafting their own.

By understanding where they sit today in terms of innovation capabilities and where they want to play tomorrow, they can chart a new strategic course for driving better results from their innovation efforts and investments. The changes in what consumers and customers want and expect from the businesses they favor are no longer just bigger, better, faster or smaller products and services. Businesses must anticipate what customers require, even before they sense it themselves. And that requires a new approach to innovation that meets the demand not to ‘make me something’ but ‘meet my changing needs’.

The shift is intuitive to grasp, but putting it into practice is far from simple. The changes it requires cut across operations and culture, taking in mindsets, cross-functional barriers, behaviors and capabilities. And all have to change together to write the new innovation playbook that will meet the demands of the ‘New’ game.
About the survey

Accenture's research was carried out as an online survey of 350 businesses from the Global 2000 across nine industries (automotive, industrial equipment, consumer goods, medical devices, enterprise technology, consumer technology, communications technology and software) and nine geographies (US, Canada, UK, France, Germany, Italy, China, Japan, South Korea). Surveys were targeted at senior executives including Chief Technology Officers (CTOs), Division Presidents and Division Vice Presidents (VPs) of engineering and innovation, or their equivalent and we also carried out a number of one-to-one interviews with representative executives across the targeted industries.

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions-underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.