Achieving breakthrough innovation for future growth

Highlights

- The right leadership, strategy, and talent are key to achieving breakthrough innovation.

- A successful innovation strategy must be aligned with the company’s overall business objectives and carefully governed.

- A culture that inspires innovation and encourages a certain amount of risk is critical to breakthrough innovation.

- Innovation will not be successful without quick and scalable commercialization.

A look at the expanded role of innovation in today’s business environment

Today, most CEOs will tell you that crafting an effective innovation strategy is no less important than creating a successful business strategy. That’s because breakthrough innovation is increasingly necessary to fuel organic growth and boost profitability. In the current business environment, incremental growth generated by marketing or R&D can no longer create and sustain success.

PwC’s annual Global Innovation Survey 2013 showed that 93% of executives said organic growth from innovation would be their major source of growth. What’s more, the survey found a clear correlation between innovation and revenue growth: Most innovative companies grow at faster rates—up to 16% higher—than the least innovative.

The benefits of innovation are clear, and the challenges are many. This is particularly true of multinational companies that operate in numerous global locations and require massive operations in finance, manufacturing, and supply-chain structures. Another challenge for retail and consumer companies is that they traditionally have been driven by marketing. Today, they must differentiate on the overall consumer experience and create a stronger brand relationship to generate greater growth and profitability.

That’s where breakthrough innovation is indispensable. Consider Annie’s Homegrown, a maker of organic food products. The company achieved an important innovation via a seemingly simple concept that was five years in the making: a microwavable mac and cheese cup.

Why so long? “It’s very, very difficult to overcome the physics problem of boiling water in a small surface-area cup without having it boil over and without solving that problem by adding a lot of chemicals,” says CEO John Foraker. “We took an outside-the-box view from a chemistry standpoint and developed the product with natural ingredients, which was a huge breakthrough for us.”

1 PwC, Unleashing the Power of Innovation, 2013
Successful innovation will not happen without the right leadership, culture, and talent—all fused with a willingness to challenge organizational norms and take risks.

First, however, a strong mission is key. “What’s behind great innovation is a really strong sense of purpose and a really strong passion and affinity for the problem you are trying to solve,” says Neil Grimmer, President and co-founder of Plum Organics. “For me and my co-founders, we were young parents who were trying to figure out how to feed our kids the very best food possible, but we were also massively time-constrained because we were working parents.”

Leadership and a coherent innovation strategy are critical, and we have found that successful companies lead by example from the top down. “I have a close and active involvement with innovation,” says Foraker of Annie’s. “Innovation must be identified as important and resourced correctly, and it has to be culturally OK to try new things—and to fail.” At Annie’s, the chief innovation officer reports directly to Foraker, an organizational structure that signals the importance of innovation.

Equally critical is a well-communicated strategy for innovation, one that is aligned with the company’s business goals and innovation investments. Innovation should also be reinforced with sound governance.

Take Plum, for instance, a maker of food products for babies and toddlers. At Plum, the innovation governance process is set up in a way that “cannot be delegated away,” says Grimmer. “We make sure that our senior leaders push innovation forward. That’s critical to our success.”

**Measuring the success of innovation**
The use of metrics is necessary to keep an innovation strategy on track. The Hillshire Brands Company, a food company that has publicly committed to being “the most innovative meat-centric company in the US,” aims to earn 15% of its revenue from new products by 2015. To do so, it tracks a range of leading indicators, says Jennifer Bentz, Vice President, Innovation and Insights.

“We look to [leading indicators] as a big part of our innovation process,” Bentz continues. “These include making sure that we have enough ideas at the early stages, that we are resourced appropriately for the biggest ideas, and that we have the level of distribution that we need.”

The drive for breakthrough innovation should also be a stated objective, one that is used to evaluate employee performance, according to Foraker of Annie’s. “We hold our people accountable for innovation,” he says.

**Finding innovative talent**
High-talent innovators typically value work that is challenging and fast-paced; job stability and remuneration may be of less importance. Innovators also often prefer casual attire and relaxed business attitudes. As such, it may be necessary to rethink how innovation people are incentivized, evaluated, and rewarded. Many companies have found it beneficial to insulate innovators from the overall workforce, which allows them to follow independent rules and behaviors. That’s not to say that innovators will disdain all corporate opportunities. Foraker says Annie’s competes with leading San Francisco Bay Area firms for talent by developing a cultural fit and by focusing on career planning and professional development. “You hear about this mostly from much larger corporations, but as a fast-growing company, we have a lot of opportunities,” he says. “It comes down to culture and treating people well, and making that a priority.”

**Finding innovative talent is inextricably intertwined with creating the right corporate culture. High-talent innovators will have different expectations than mainstream employees.**

**Where culture and talent intersect**
Among retail and consumer companies, and CPG companies in particular, establishing a culture that values innovation is often a challenge because many have historically focused on operations. An innovative culture should be buttressed by an organizational structure that includes innovation champions who bridge communications between senior management and innovative thinkers. The culture should also eschew bureaucratic, slow decision making.

Finding the right talent is indisputably intertwined with culture and innovation—and remains a top challenge. An understanding of the creative personality is key, as is developing a culture that inspires free-thinking innovators.
Growth fueled by innovation is now a major component of corporate strategy, equal in importance to operational excellence. Successful innovators are shifting their focus toward creating value-added services, embracing internal innovation incubators and labs, encouraging wide collaboration, and commercializing new ideas quickly.

Perhaps most significant is that many companies are transitioning from a product or a service offering to a solution that holistically addresses customers’ needs. Grocery retailers, for instance, bolster the sales of organic foods with websites and mobile apps that help customers create and maintain a healthy living plan. This type of business-model innovation may require new partnerships, such as a venture with a diet-analysis service to add value.

Centers of creativity
Another approach lies in creating innovation incubators, a small group of entrepreneurial thinkers that operates with a unique culture and mind-set within the corporate ecosystem. These high-talent innovators are given the best of both worlds—creativity and job stability—to encourage more inventive thinking in a more free-wheeling environment.

Consider Walmart. This juggernaut of brick-and-mortar retailing is improving its digital shopping offerings through an innovation lab called @WalmartLabs in Silicon Valley, far from headquarters in Bentonville, Arkansas. @WalmartLabs has unleashed a torrent of new e-commerce products that focus on social and mobile commerce, as well as data-crunching tools.

Another practice that is trending among retail and consumer companies is open innovation, or collaborating with a range of partners, suppliers, manufacturers, academics, and even competitors. “Great ideas can come from anywhere, and we search for the greatest ideas from everyone we work with,” says Bentz of Hillshire Brands.

The company has launched a new initiative with a Dutch research and innovation firm to develop new “clean label” meat products created from natural, healthy ingredients. “This partnership provides a way for us to get ahead of where we know the market is going and to partner early,” Bentz says.

Other companies are partnering with their retailers and contract manufacturers to explore innovation. “One thing that has made us successful is that we partner very deeply with our retail partners around understanding the trends they see and the innovation that would be meaningful to their customers,” says Grimmer of Plum. “And we spend time doing creative jam sessions with co-manufacturers to collaborate around consumer needs.”

New speed to value
Innovation will not be successful without quick and scalable commercialization. To achieve this objective, some companies are harnessing rapid prototyping of business models and technology to accelerate development, lower costs, and create breakthroughs.

Plum provides a prime example. The company took its innovative spouted baby food pouch from concept to store shelves in three months, a “borderline impossible” accomplishment, according to Grimmer. To do so, Plum employed rapid prototyping to create the pouch and food products to fill them. “Within a week we had artwork [for packaging] and six recipes,” he says. “We launched the product within that three-month window—and it delivered on every expectation.”

Collaboration is critical
Collaborating with customers and consumers is also vital for gaining insight and innovation, and social technologies are important tools for companies like Annie’s. “We use social media extremely aggressively,” says Foraker. “For instance, we were one of the first branded companies that had a strong place on Pinterest. We challenge our people to be early adopters of new technologies.”

Internal social collaboration enables a company’s far-flung employees to meet and work together to co-create. In fact, some collaboration-centric companies are replacing e-mail systems with enterprise social networking solutions like Jive Software, IBM Connections, Microsoft Yammer, and Salesforce.com Chatter.

Collaborative technology can also be a home-grown solution. Hillshire Brands has created an intranet for idea-sharing that has increased employee participation and engagement. “It allows our employees to really contribute in a big way,” says Bentz. “When you’re an employee of Hillshire Brands, that’s synonymous with being an innovator.”

Upcoming innovation topics

- Recruiting—and retaining—the right people to achieve breakthrough innovation
- How collaboration can inspire high-talent innovators and drive innovation
We interviewed John Foraker, CEO of Annie’s Homegrown, for this series on innovation. Following are excerpts from the interview.

Q: What are the key drivers to innovation at Annie’s?
A: The biggest driver is strategy and the desire to deliver what our consumers want. We know the path to making consumers happy is continuing to innovate in product and getting into categories where they want us to be. We have made innovating and extending the brand one of our core strategies.

Q: Has it been challenging to continue with your innovation strategy after Annie’s became a public company?
A: If anything, we are more committed to innovating at a faster pace since we’ve been public. We have been investing progressively heavier dollars every year and our pipeline is richer now than it has ever been. Just a few months ago we signaled to our investors that we are going to do two new platforms annually going forward. Historically, we were doing one. We want to make sure that the organization’s appetite for taking risk, pacing, and innovating is not impacted by concerns about quarter-to-quarter moves in the business.

Q: How do you assist or incentivize the organization in acting on new ideas?
A: I’m very involved in the allocation of resources across the business. So when we have new ideas, I weigh in to push the organization to take the risk and be willing and comfortable with potential trade-off if the idea takes off. As we get bigger and push decision making down, we will have to maintain that balance. It’s something I’m very focused on.

Q: What are your biggest challenges in recruiting top talent for innovation?
A: We have a culture that has a strong set of core values around trust, honesty, integrity, social responsibility, and environmental sustainability. And we have found that the kind of employee we want in our company is the kind of employee that is engaged by those kinds of values.

Our employee programs reflect that, too. We have a program, called Annie’s Lifestyle of Health and Sustainability, that includes services like acupuncture, workout routines at a gym in our building, and demonstrations on how to cook healthier foods. It’s all about helping our employees live healthier.

A big part of my focus on the day-to-day business concerns how to strengthen the culture and hire the smartest people. And a big part of the HR function’s role at Annie’s is focused on career planning, development, and identifying opportunities to promote from within.

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