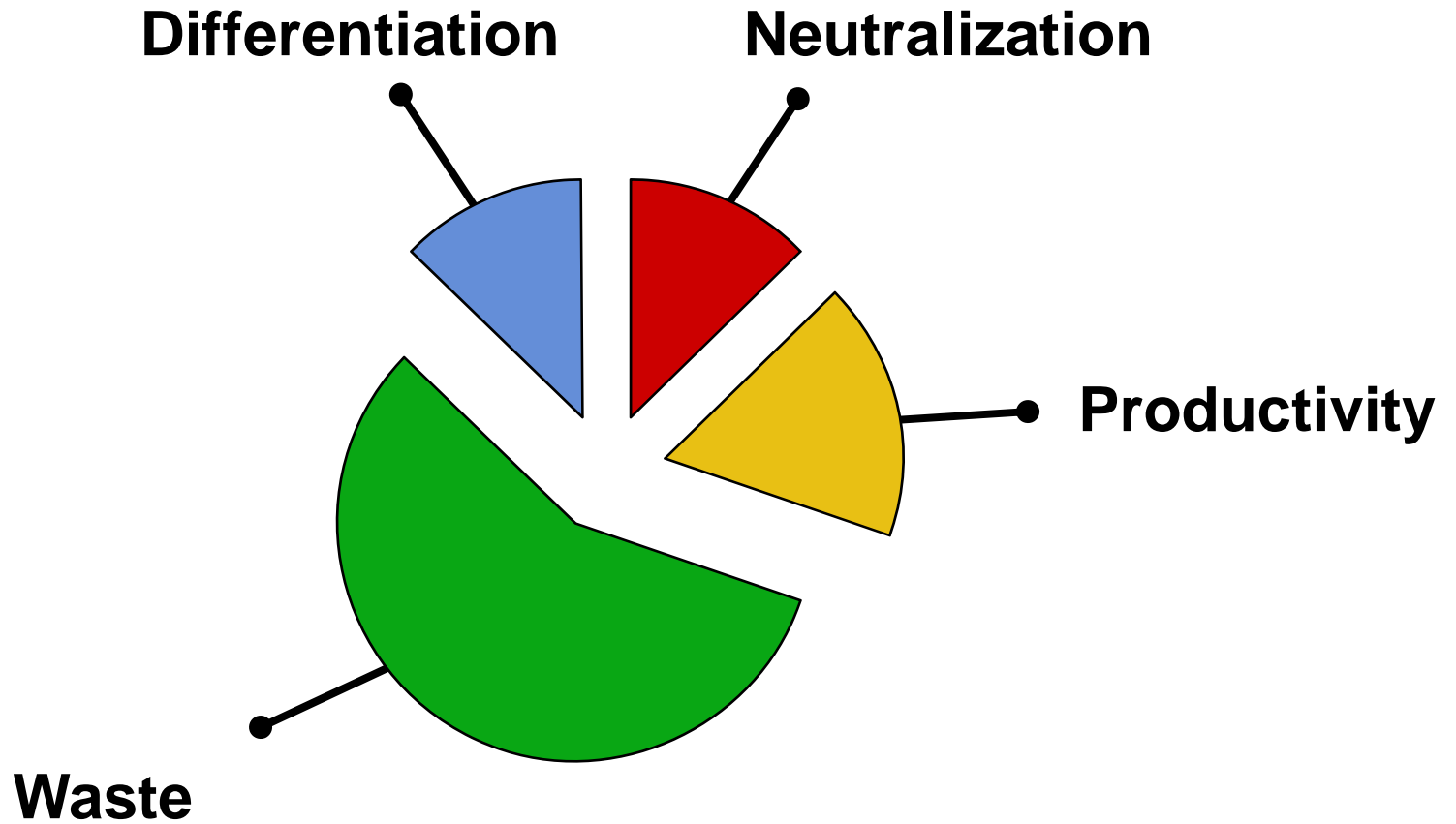
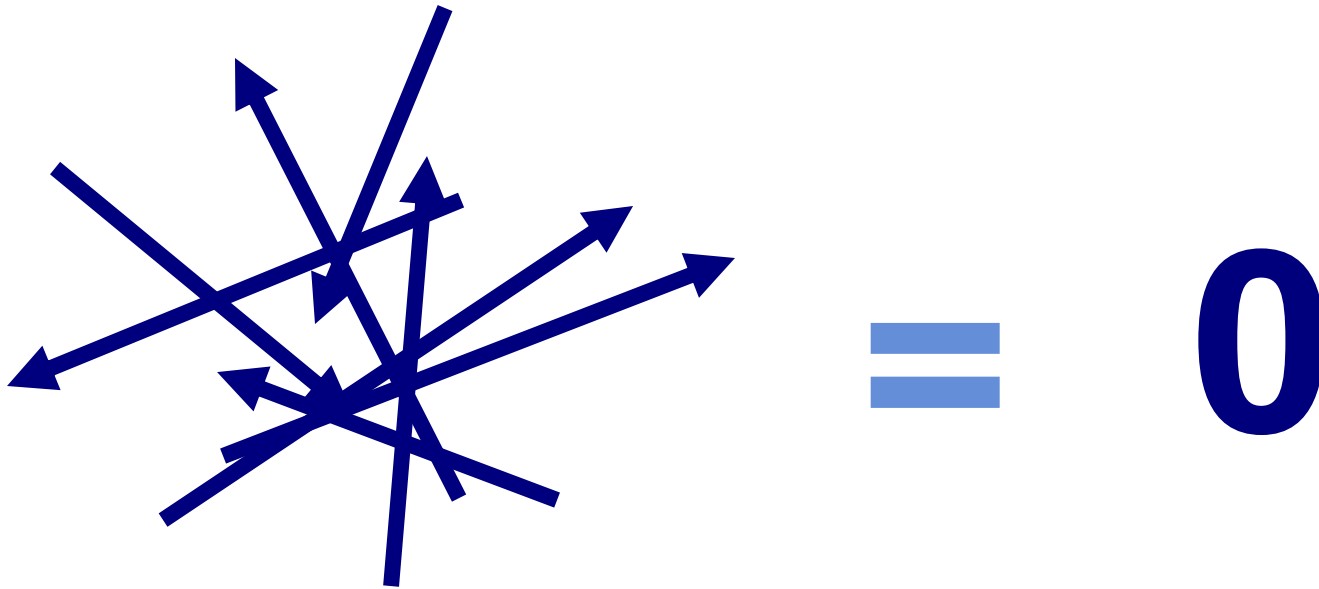


Return on Innovation



Innovation Strategy

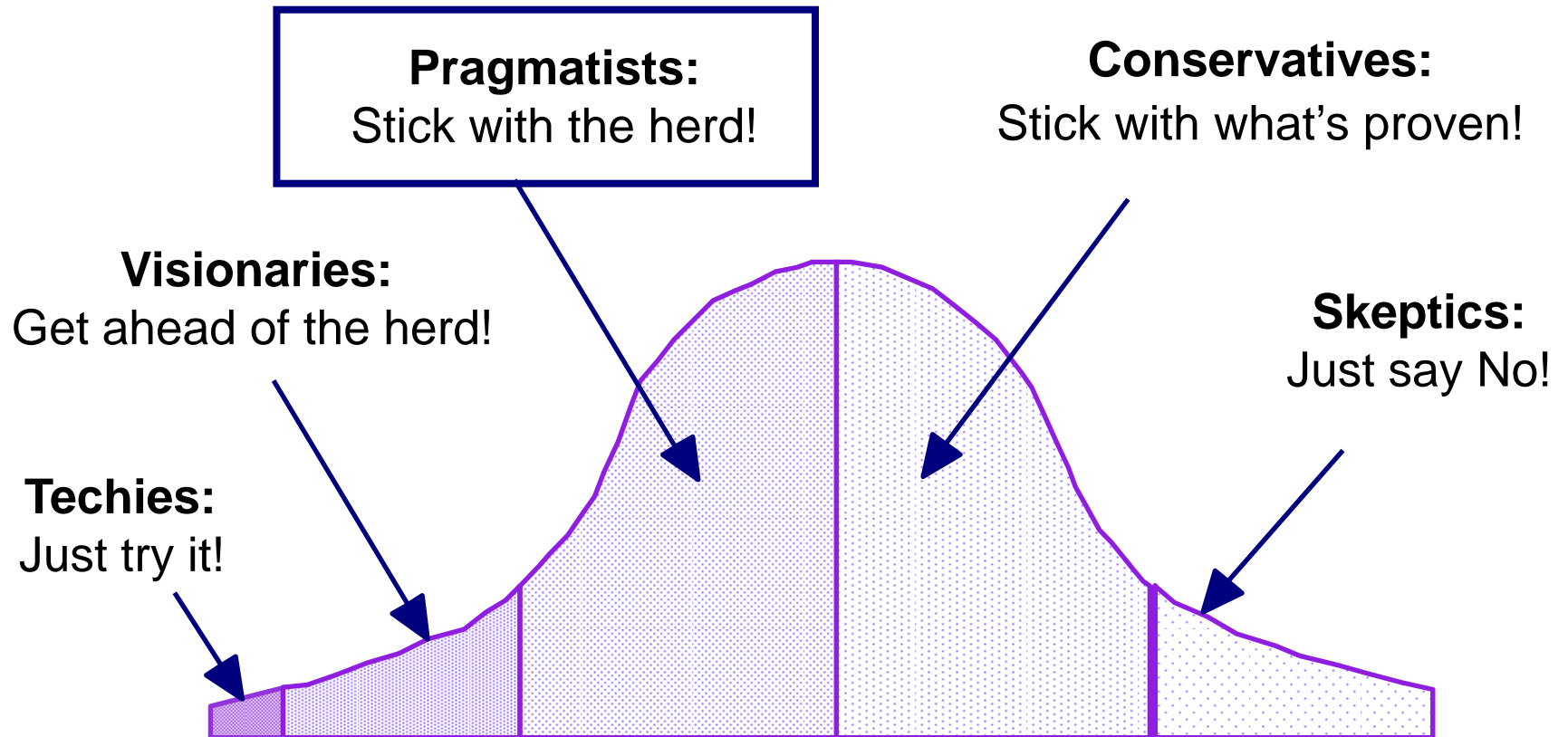
Remember Your Vector Math!



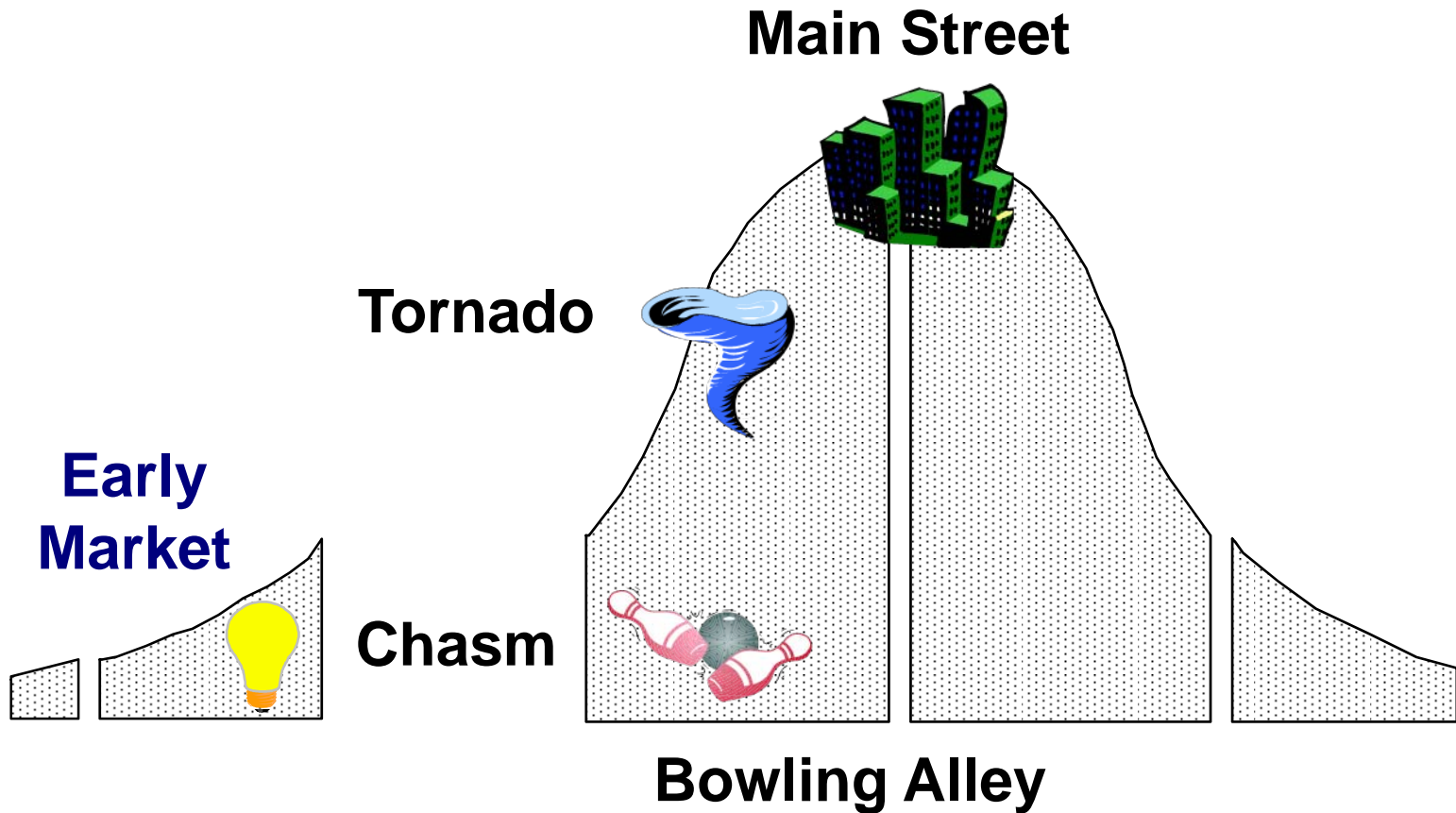
Multiple innovation initiatives
Bubble-up management

Underlying Drivers in Growth Markets

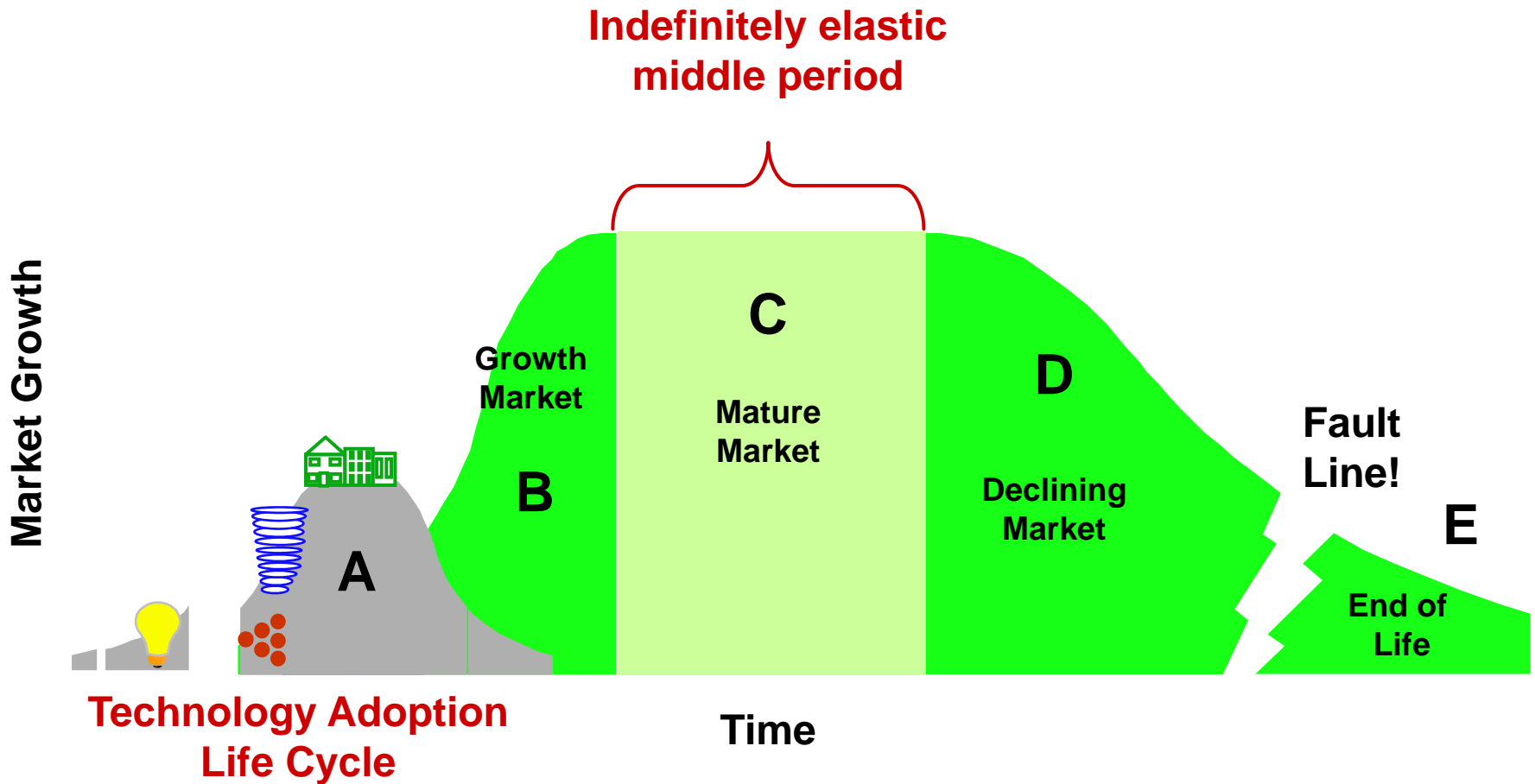
Technology Adoption Strategies



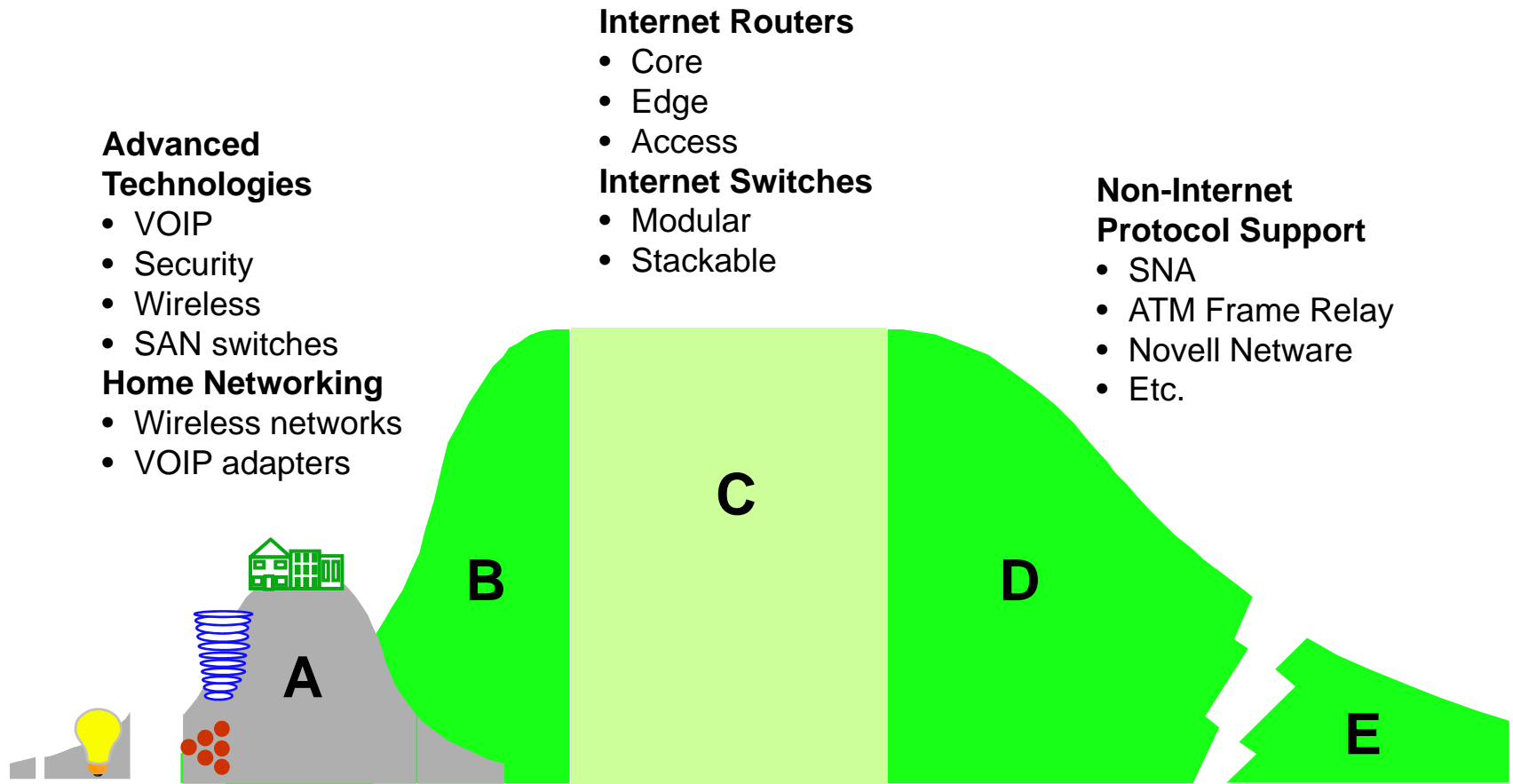
Technology Adoption Life Cycle



The Category Maturity Life Cycle



Cisco Systems and The Category Maturity Life Cycle



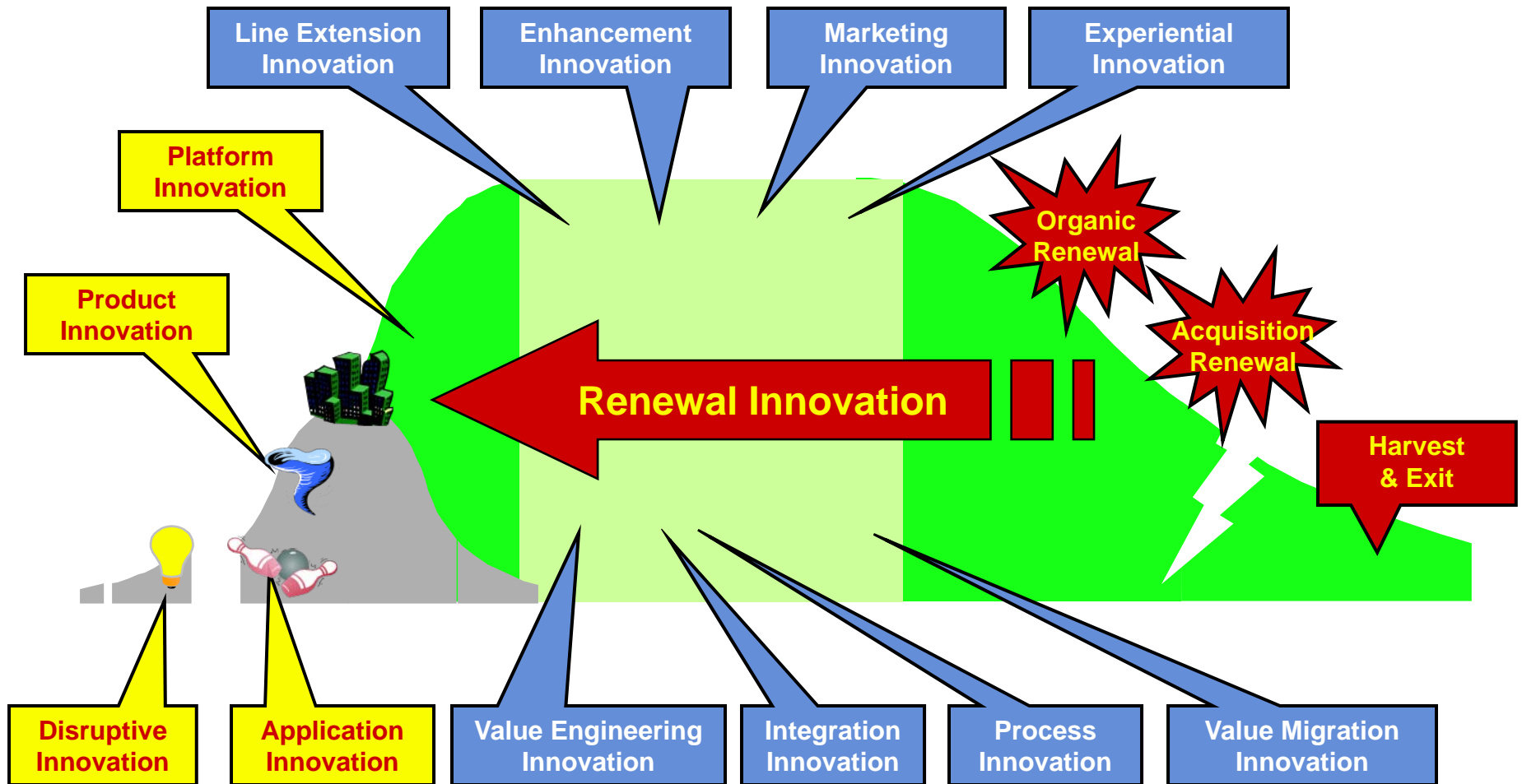
Sector Futures

- Data Center Virtualization
- Service Provider Triple Play
- The Networked Home

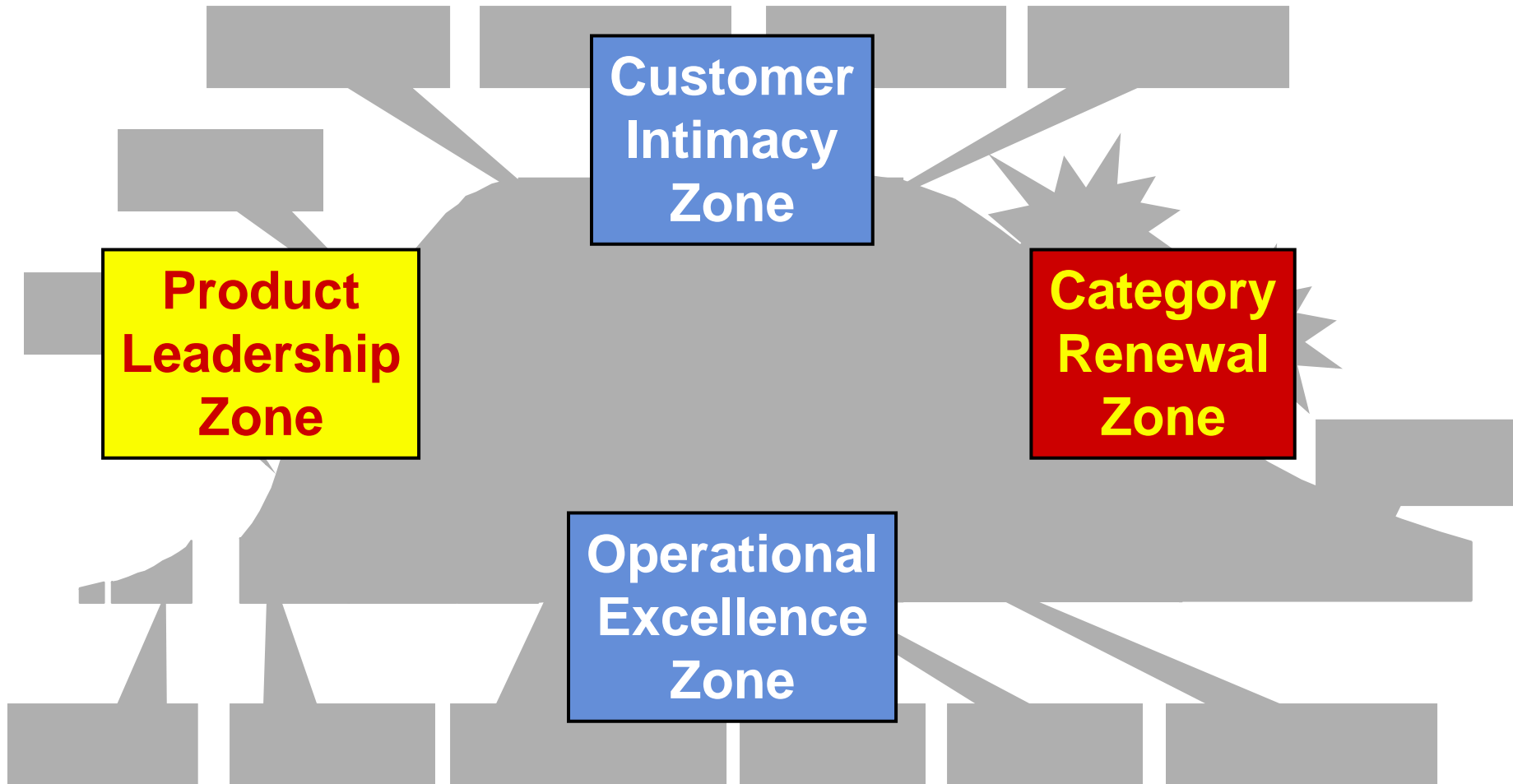
Problem Children

- Optical network equipment
- Service Provider access

A Broad Universe of Innovation Types

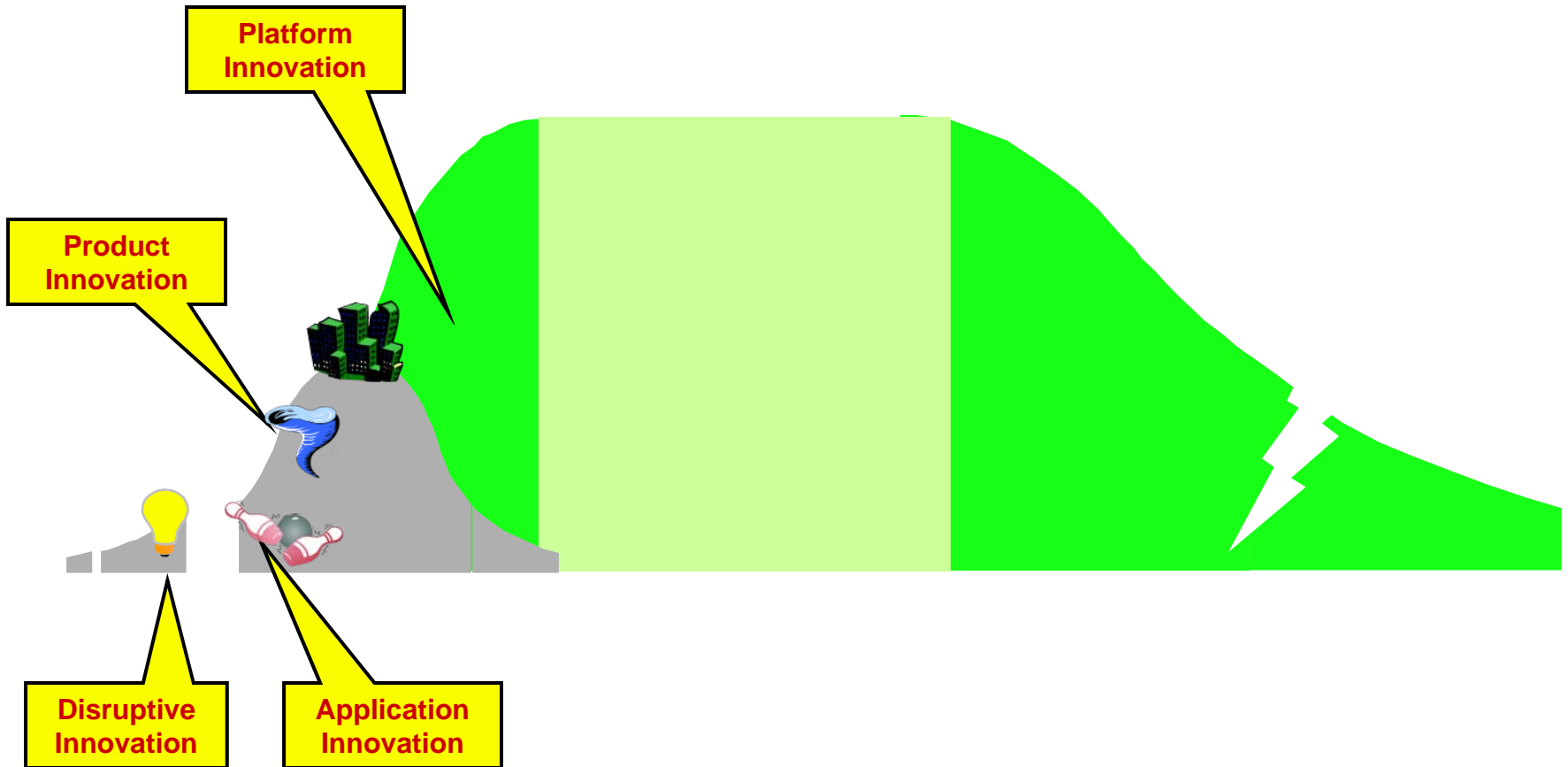


Four Innovation Zones

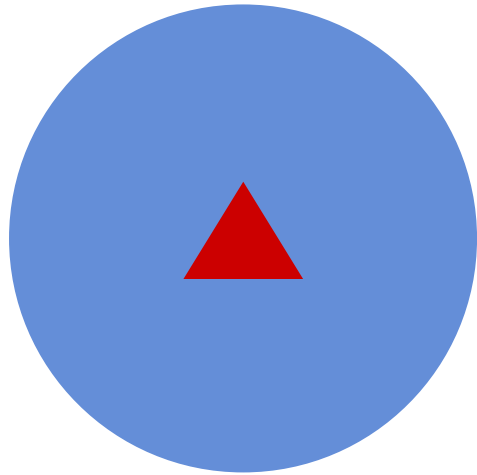


Innovation Types for Growth Markets

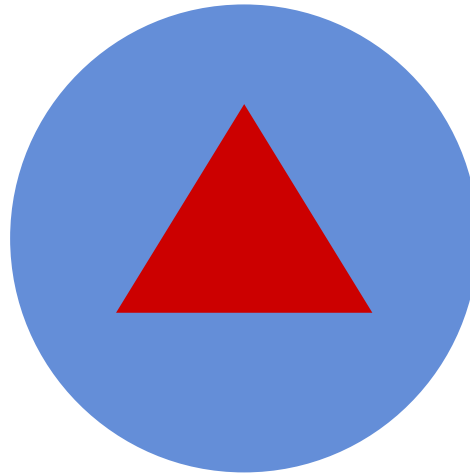
The Product Leadership Zone



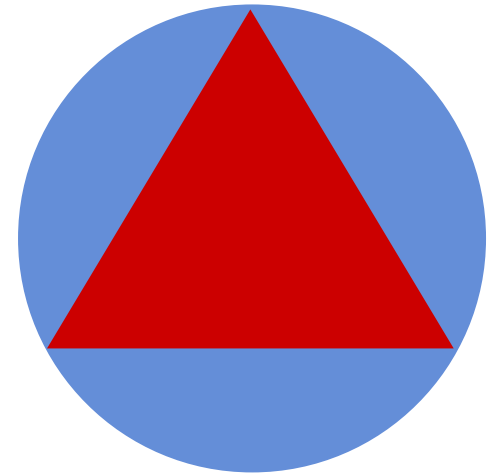
Fractalization in Mature Markets



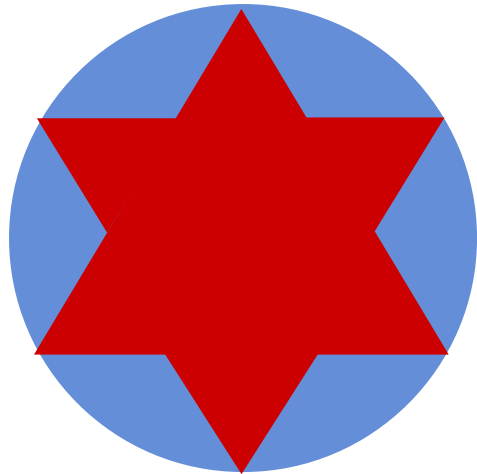
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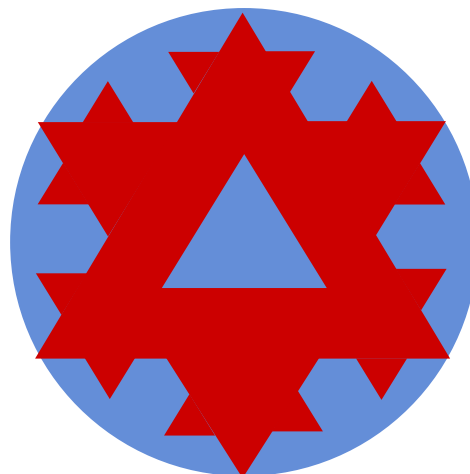
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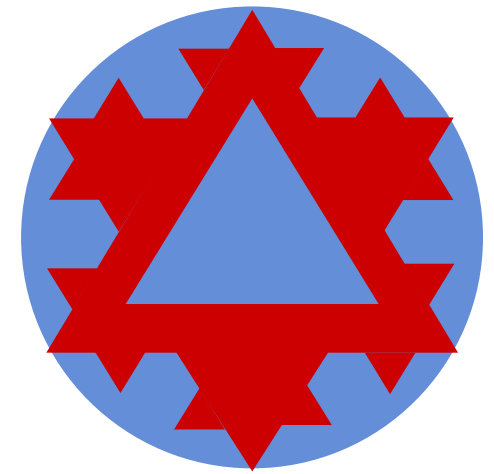
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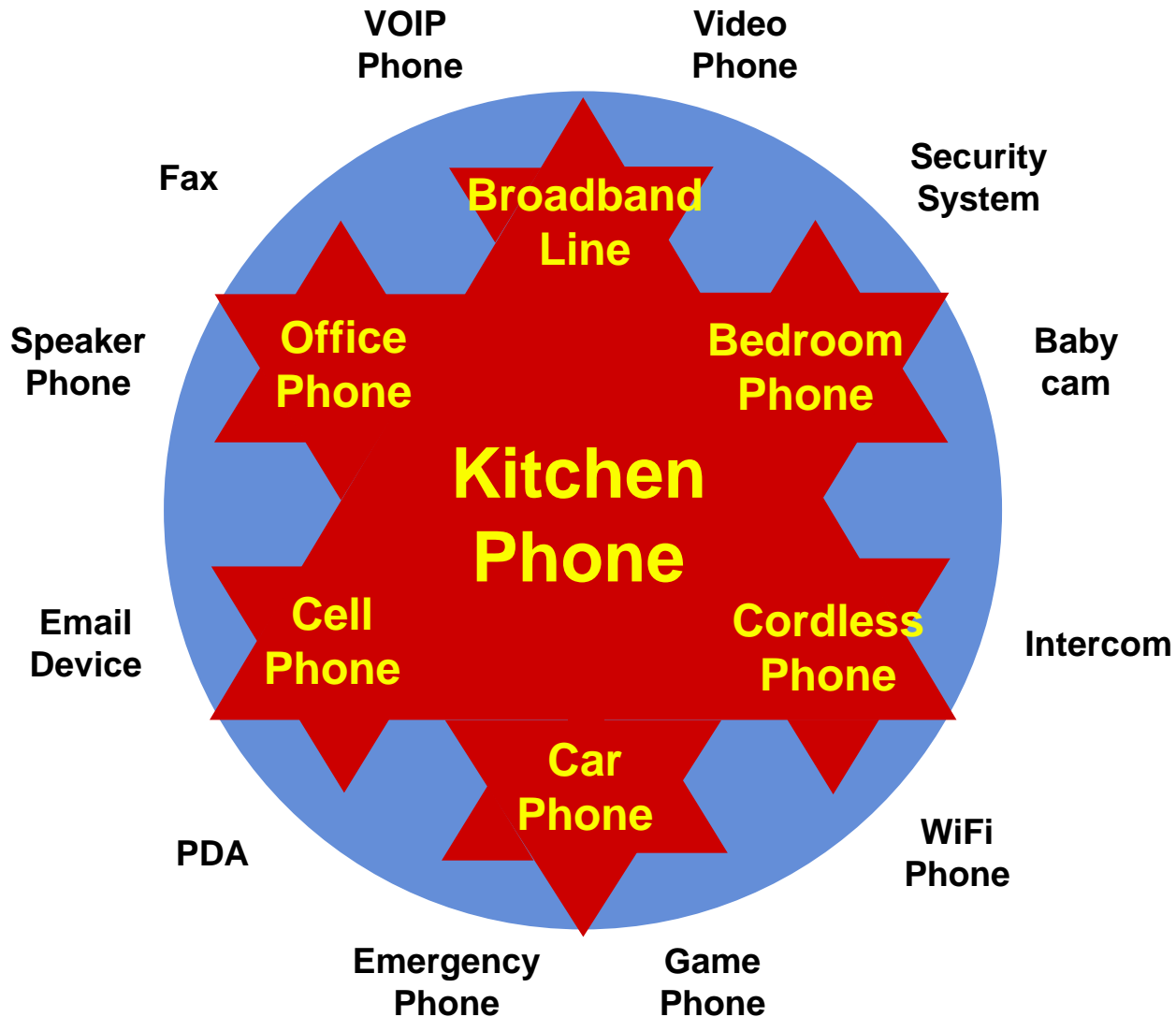
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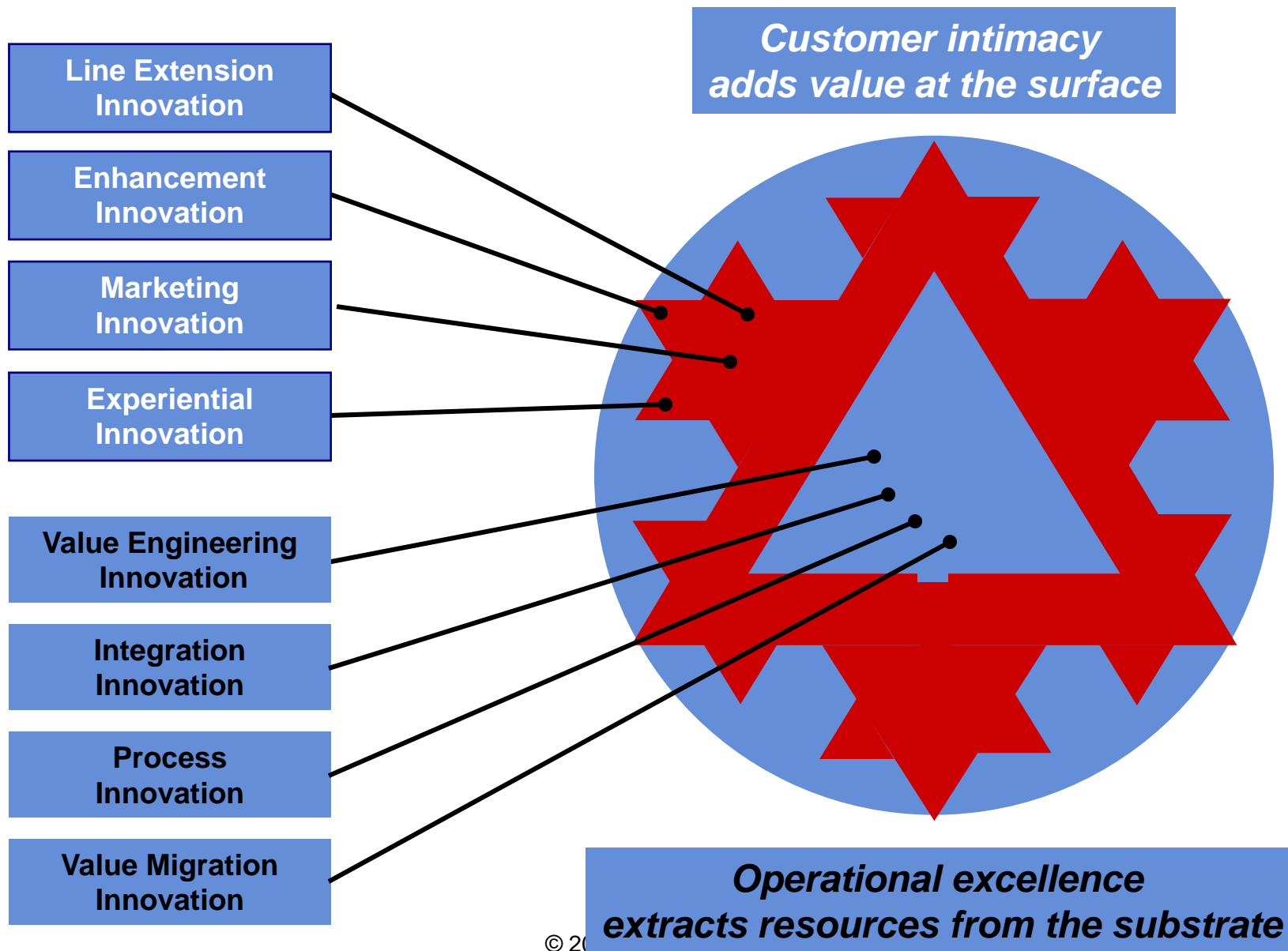
6

Fractal Markets: The nth Device

The Example of Telephones

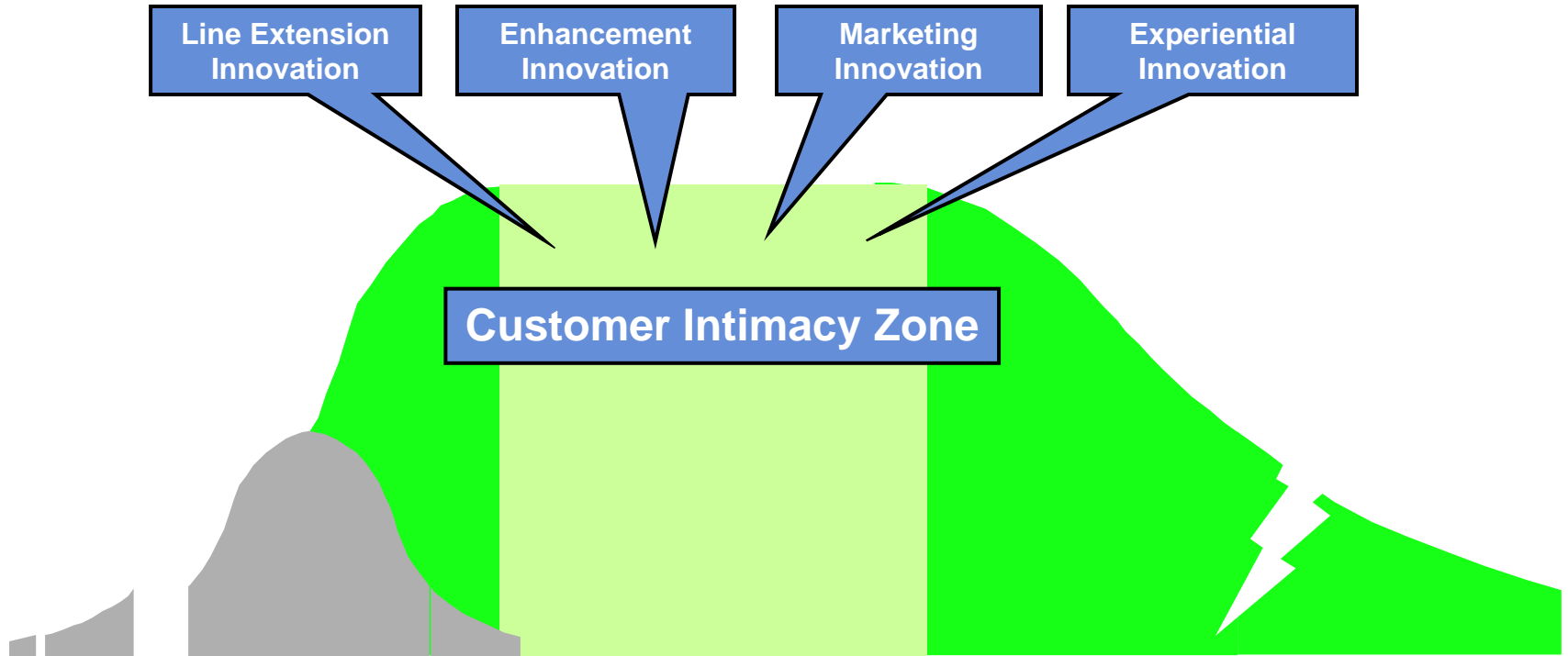


Innovation Types for Fractal Markets



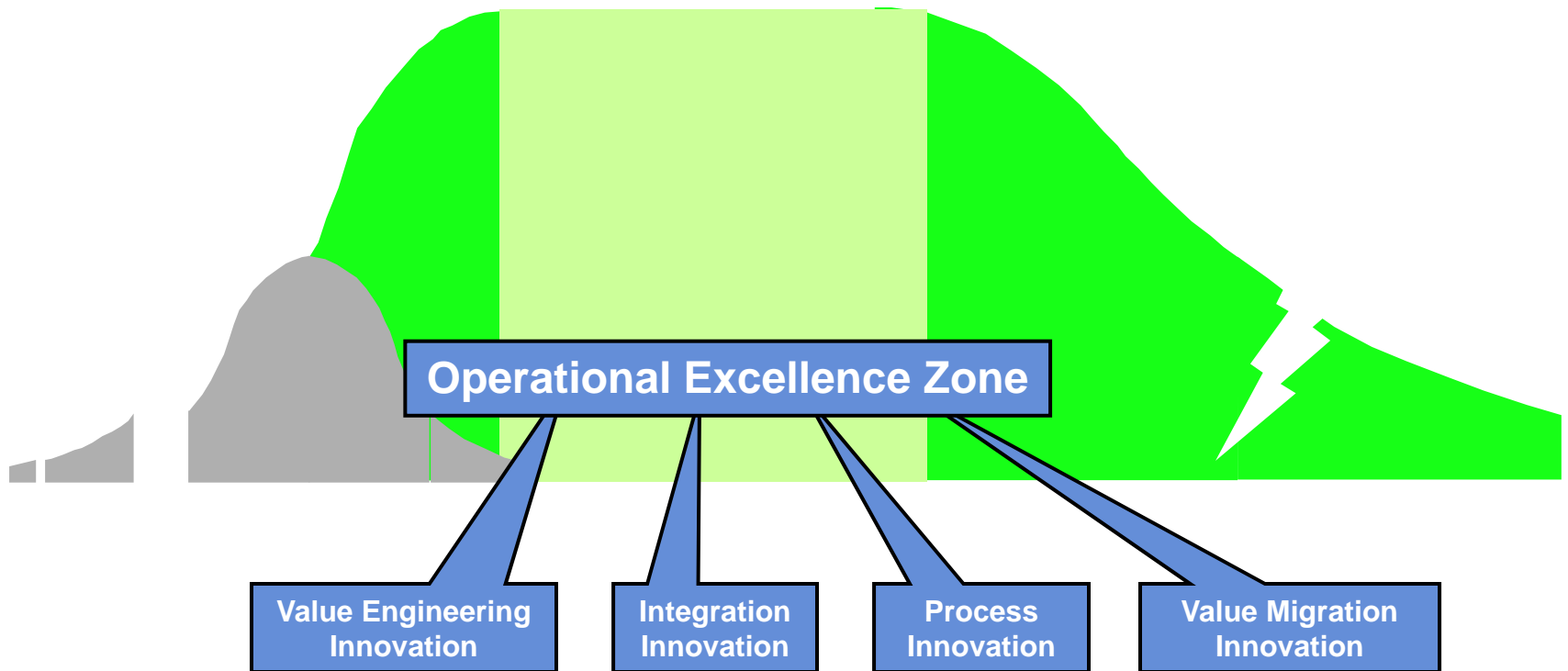
Innovation Types for Mature Markets

The Customer Intimacy Zone



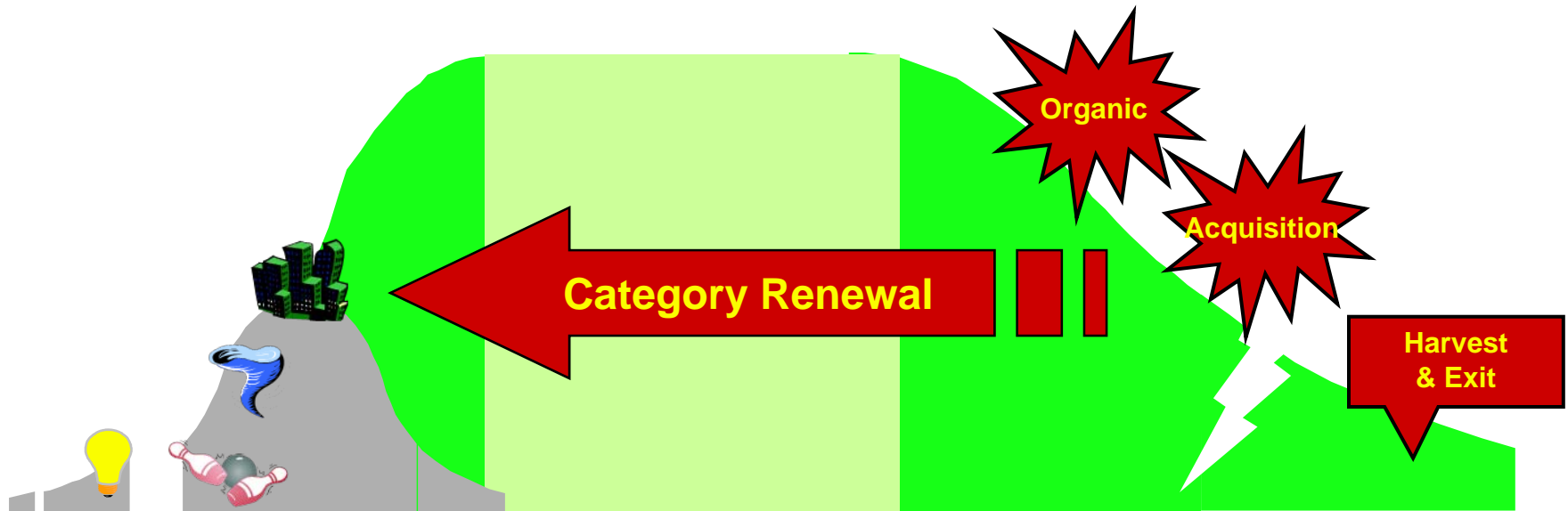
Innovation Types for Mature Markets

The Operational Excellence Zone



Innovation Types for Declining Markets

Leveraging Category Renewal



Innovating in Growth Markets

The Product Leadership Zone

Disruptive Innovation

Fed Ex

Create a new category, build the value chain to serve it, and ride its adoption to success

Application Innovation

Nike

Take an established product or service into a new market where it can tap unmet demand

Product Innovation

Google

Take share in an established market with a new offer that dramatically outperforms current market leaders

Platform Innovation

Microsoft

Stimulate and dominate next-generation growth markets by opening up your installed base to partners

Innovating for Product Leadership

- **When it is rewarded**
 - Growth markets: features and functions still matter
 - Product leadership helps capture market share
 - Reward matches the risk: NPV of a new customer
- **When it is not**
 - Mature markets: “Good enough” is good enough
 - Over-featured products annoy customers
 - Customers choosing more by brand or vendor

Innovating in Mature Markets

The Customer Intimacy Zone

Line Extension Innovation

Mattel Barbie

Gain market share by modifying a mass-market offer to appeal to an underserved market segment

Enhancement Innovation

Motorola

Gain margin share by creating greater perceived value at the surface of an existing offer

Marketing Innovation

P&G

Gain customer preference through differentiated communication and delivery methods

Experiential Innovation

Disney

Gain customer preference through differentiating the experience of the offer and its delivery

Innovating for Customer Intimacy

- **When it is rewarded**
 - Mature markets: core product has become a commodity
 - Relationship to brand or vendor trumps product feature set
 - Interplay with customer's emotions drives purchase behavior
- **When it is not**
 - Technology markets: risk of wrong purchase drives rational approach
 - Your brand or style does not resonate or isn't trusted
 - The customer does not want an intimate relationship

Innovating in Mature Markets

The Operational Excellence Zone

Value Engineering Innovation

Walmart

Take market share by being first to the next price-elasticity inflection point

Integration Innovation

SAP

Protect and extend market share by eliminating the complexity of managing many disparate elements

Process Innovation

Dell

Win share by leveraging productivity gains from reengineering industry-standard business practices

Value Migration Innovation

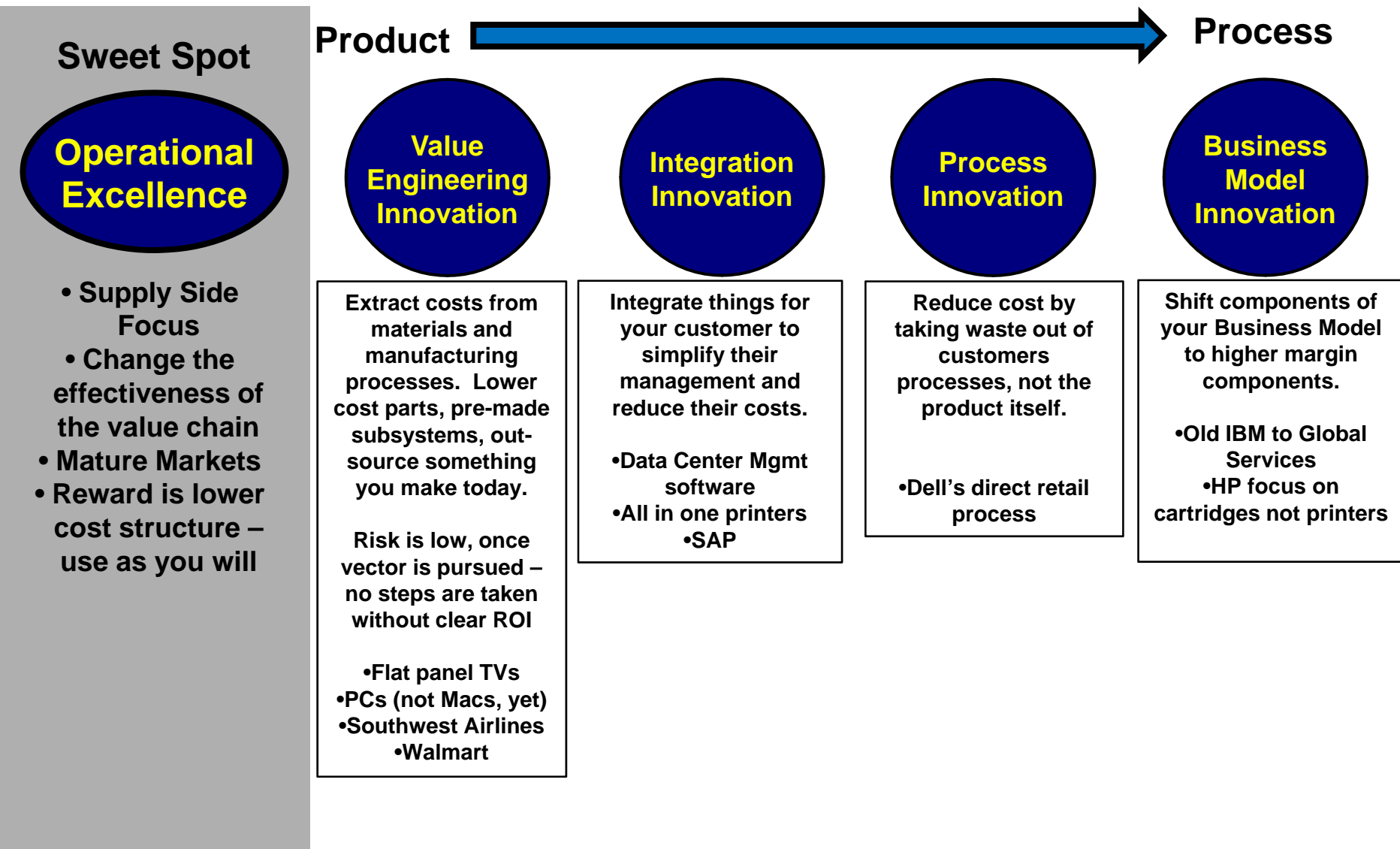
IBM

Win margins by migrating to a new and more highly valued business model

Innovating for Operational Excellence

- **When it is rewarded**
 - Mature markets: core product has become a commodity
 - Low-cost provider wins the bottom of the pyramid
 - Top of the pyramid seeks reliability and/or convenience
- **When it is not**
 - Technology markets: Must get the whole product right first
 - Brand markets: Must get the “right” product: iPod
 - Inefficient markets: Can’t recoup the savings you create

Catalog of Innovation Types



Catalog of Innovation Types

Product  Customer

Sweet Spot

Customer Intimacy

- Demand Side Focus
- Change the customer's experience
- Mature Markets
- Reward is more Power with customers, differentiation

Line Extension Innovation

Change a current product to make a "sub-offering". It "de-commodifies" a category – customers see it as a big change when the changes actually aren't that great.

Lower risk because value chain to create is similar.

- Mini-vans out of car industry
- Lap-tops out of PC industry
- Tylenol into cold medication, etc.
- Barbie doll

Enhancement Innovation

Similar to Line Extension but less about the infrastructure of the Product and very focused on features.

Risk is driven by resources needed to create and market Enhancements. Can be a "suckers bet".

Primary risk is that companies innovate here when they don't know what else to do.

- Cherry Coke
- Nav systems in cars
- K-C Diapers
- Motorola Razor phone

Marketing Innovation

Change the interaction with a prospective customer. Out sell, don't out product.

Risk is driven by resources committed to new marketing methods. Pilot first, focus on niche.

- Web 2.0 technologies
- Pop-up Stores
- Nike
- American Girl dolls
- P&G

Experiential Innovation

Changing the experience of the product without changing the central product or functionality.

- Coffee shop with great atmosphere
- Product firm using event marketing to sell
- Gartner Group
- Disney

Catalog of Innovation Types

Sweet Spot

Product Leadership

- Focus on growing markets
- Change the product or offering

Disruptive Innovation

Grand-daddy of Innovation – a significantly different technology or business model that changes all tears down all traditional market norms and builds a new market around itself.

High-risk, very high reward. Best pursued by the Venture Capital industry. Enterprises have M&A option later.

- Napster, iTunes
- Shutterfly, oFoto
- FedEx

Solution Innovation

aka *Application Innovation* – new markets for existing Products. They use existing Value Chains for new Products.

Some risk, but doesn't require much product modification. Does require "Crossing the Chasm".

- Fault tolerant computers to ATMs

Product Innovation

New features or functions for existing products in existing markets. Time to market is key. This and *Disruptive* are the two most common "traditional" forms of Innovation.

Risky, medium rewards. Relies on superior customer insight. Design firms (IDEO) are tremendous partners.

- Hybrid cars
- Wi-fi in PCs
- Google 2004-2007

Platform Innovation

Turning a Product into a Platform that others can integrate to easily. Do this by taking our complexities and offering up a common interface for other to "plug-into"

High risk due to significant investment. High reward if you can become the platform. Room for 1 maybe 2.

- CDMA as enabler of 3G
- DOS as PC platform vs part of IBM PC
- Microsoft in general