



Innovation that matters

Insights from the 2006 CEO Survey

Peter.Korsten@nl.ibm.com

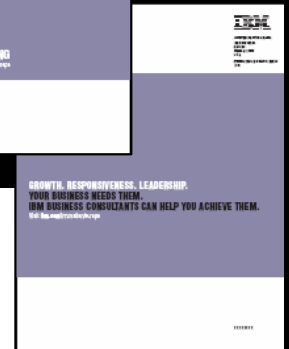
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The Global CEO Study 2006: Expanding the Innovation horizon!

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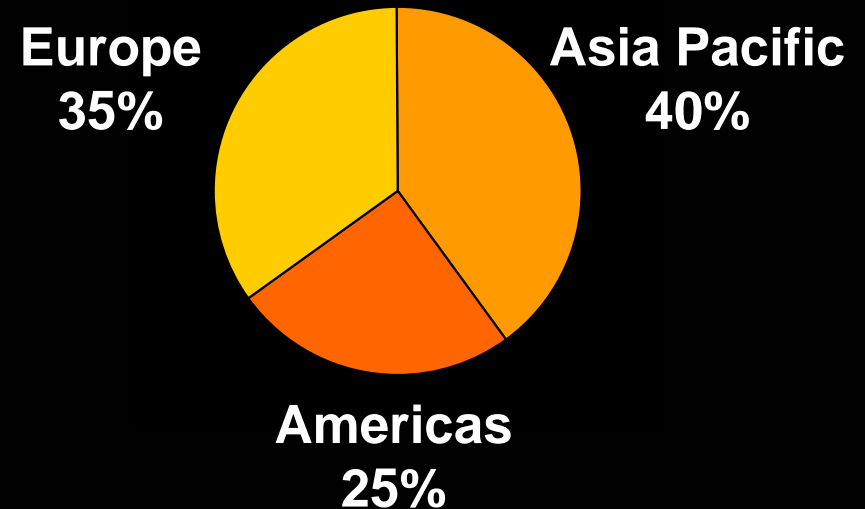
Interviewed **765** CEOs worldwide – representing 5 sectors, 21 industries, large and SMB enterprises

- **Business model innovation is the new strategic differentiator**
- Collaborative innovation separates winners and losers
- CEOs believe that integrating business insight and technology capabilities enables the organization to “stay ahead of the curve”
- CEOs are taking an active role in driving an innovation agenda

The Global CEO Study 2006 is the largest CEO-level study of its kind

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- **Scope:** 765 CEOs and business leaders representing all major countries, from 21 industries, large and SMB enterprises
- **Purpose:** Understand role of innovation on CEOs agenda
- **Innovation Definition:** “New ideas or current thinking applied in fundamentally different ways resulting in significant change”
- **Innovation focus:**
 - Products, Services, and Markets
 - Business Models
 - Operations

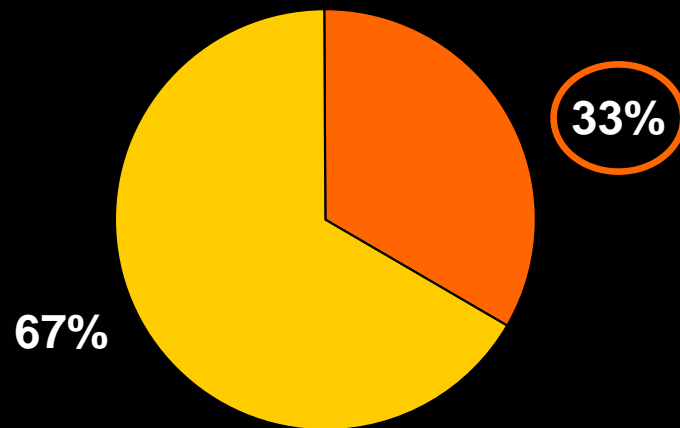


In the Global CEO Study 2004, CEOs saw a return to topline growth

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Above average growth doubles the odds of creating high shareholder value

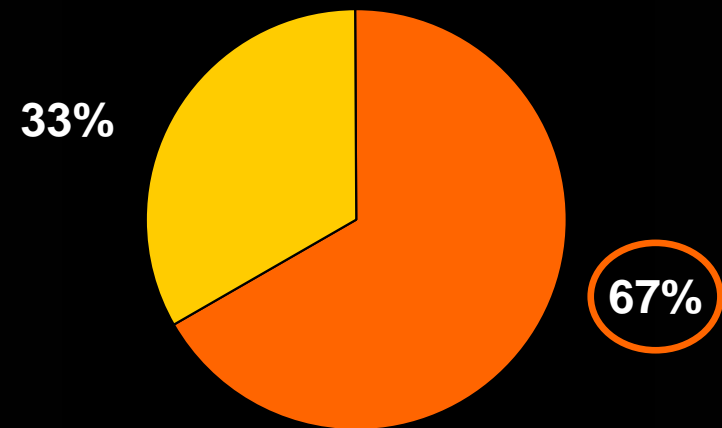
Low-Growth Companies



■ Below Average Shareholder Value Growth

❖ **“Pressure from the markets... It’s all about sustainable growth.”**

High-Growth Companies



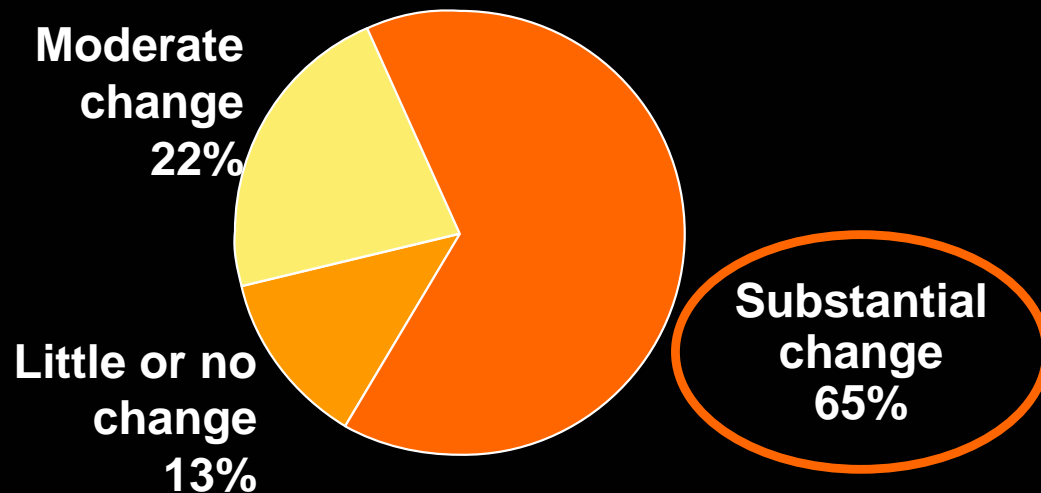
■ Above Average Shareholder value Growth

❖ **“It’s about growing the top line while keeping the bottom line in check.”**

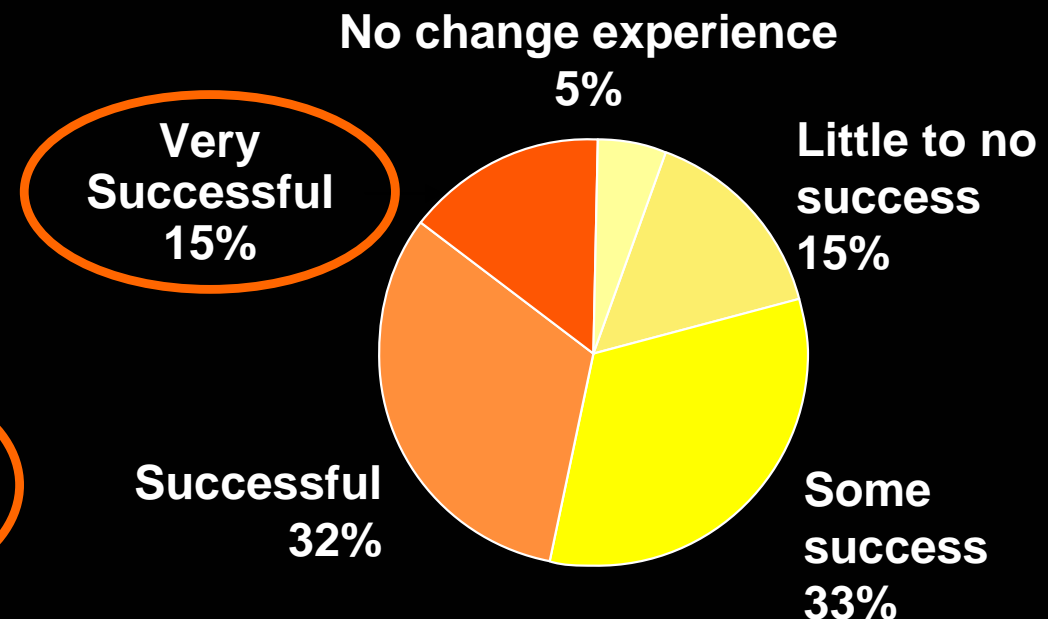
Source: The Growth Triathlon, IBM

Growth requires fundamental change; CEOs are uncertain about their ability to manage it

Extent of Fundamental Change Needed Over the Next Two Years

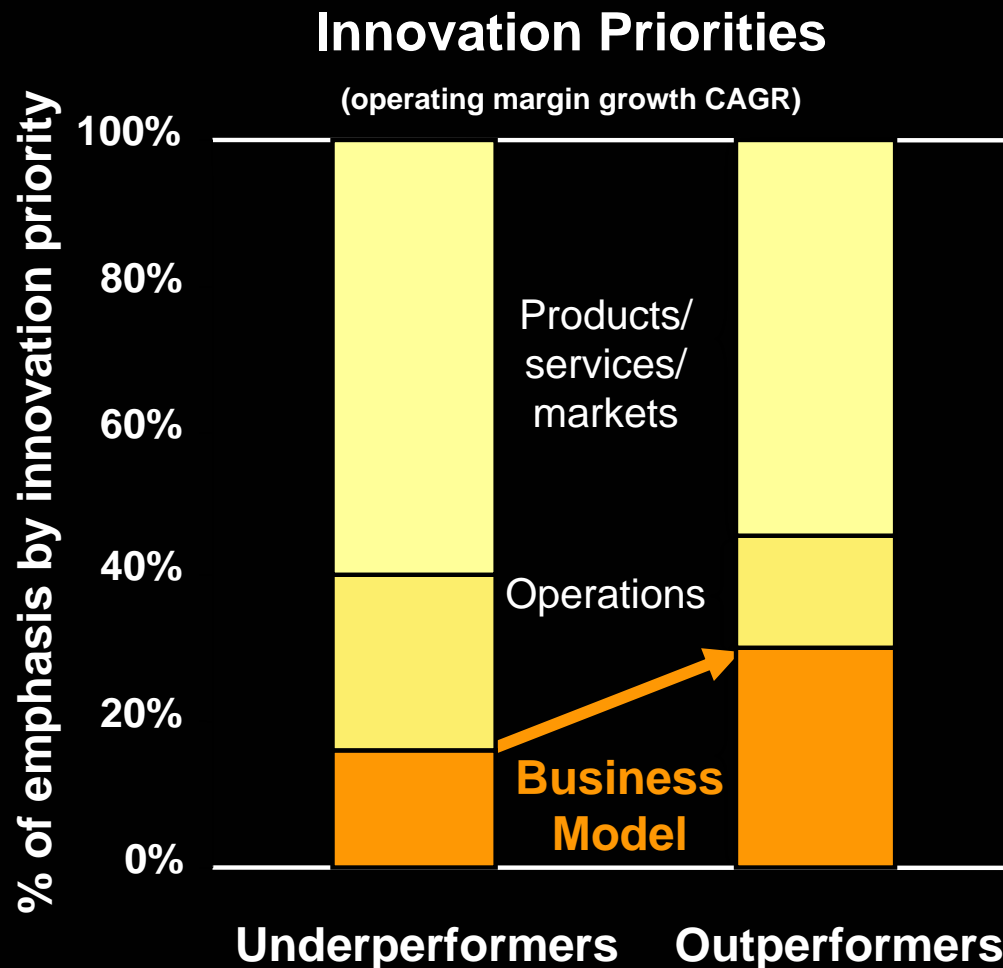


Past Level of Success at Managing Fundamental Change



Outperformers are nearly twice as likely as underperformers to innovate their business model

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- ❖ *“The business model we choose will determine the success or failure of our strategy.”*
- ❖ *“Products and services can be copied, the business model is the differentiator.”*
- ❖ *“Our greatest focus is on business model innovation, which is where the greatest benefits lie.”*

So, the key findings around innovation show a change in the fabric of how innovation is seen and managed

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Myth: Innovation means developing new products and services

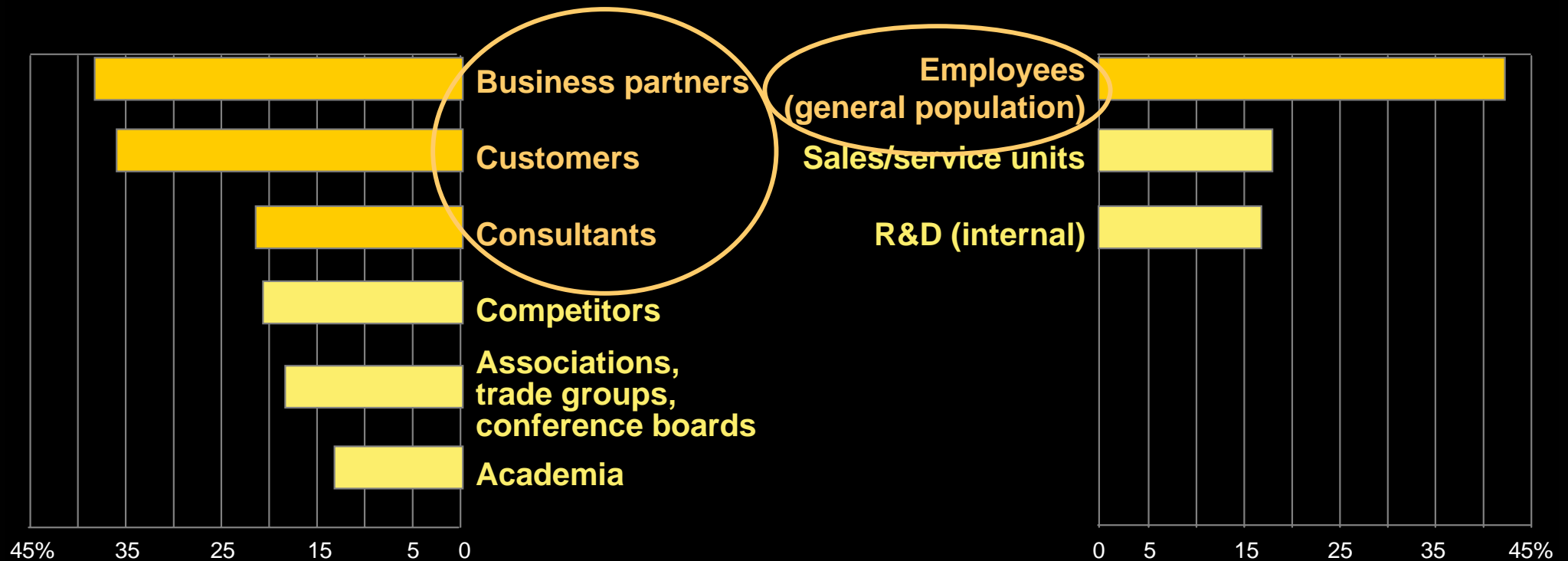
Reality: Business model innovation matters

Myth: Innovation is too critical and proprietary to involve outsiders

Searching for fresh ideas, CEOs are increasingly turning to outside sources

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Sources of new Ideas and Innovation

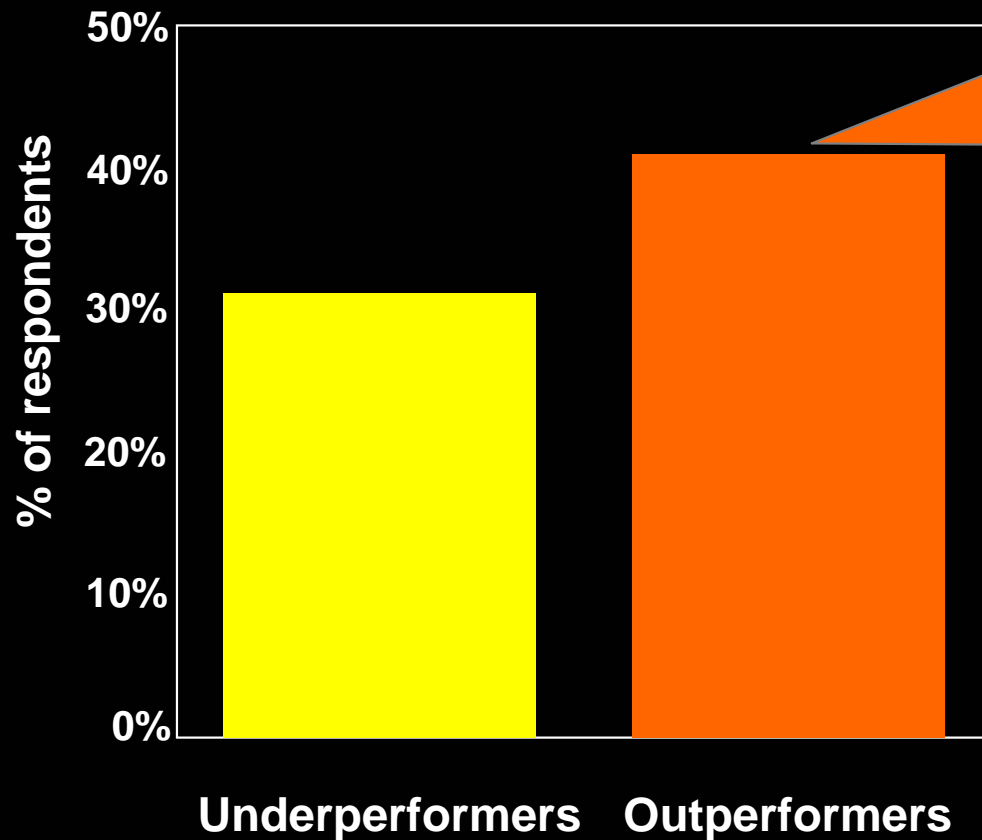


❖ *“Some of the boldest plans under consideration within our company work by leveraging the collaborative potential of service providers in other domains.”*

Outperformers source 30% more ideas from outside

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Quantity of New Ideas from External Sources



- *7 key industries source more than 40% of their ideas from outside*
- *Two industries — Telecommunications and Chemicals/Petroleum — source more than 50%*

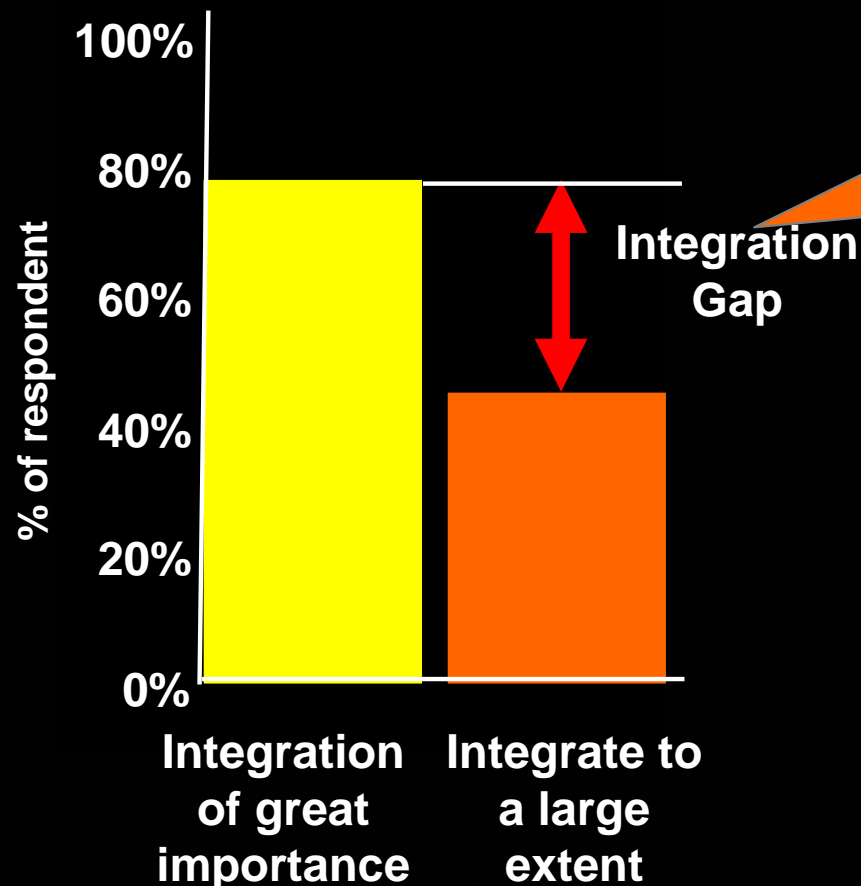
❖ *“If you think you have all of the answers internally, you are wrong.”*

❖ *“We need third parties as benchmarks and sparring partners. This also helps our staff to broaden their view.”*

And CEOs agree that collaboratively integrating business and technology is critical to innovation

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Business & Technology Integration Importance versus Extent



Extensive integrators

- *Reported revenue increases 3 times more often than limited integrators*
- *Grew revenue 5% faster than competitive peers*

❖ *“We must use technology to stay ahead of the curve.”*

❖ *“Technology must be integrated early in the stages of business strategy.”*

❖ *“Technology is the only way to cope with the surge of new work and opportunities.”*

So, the key findings around innovation show a change in the fabric of how innovation is seen and managed

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Myth: Innovation means developing new products and services

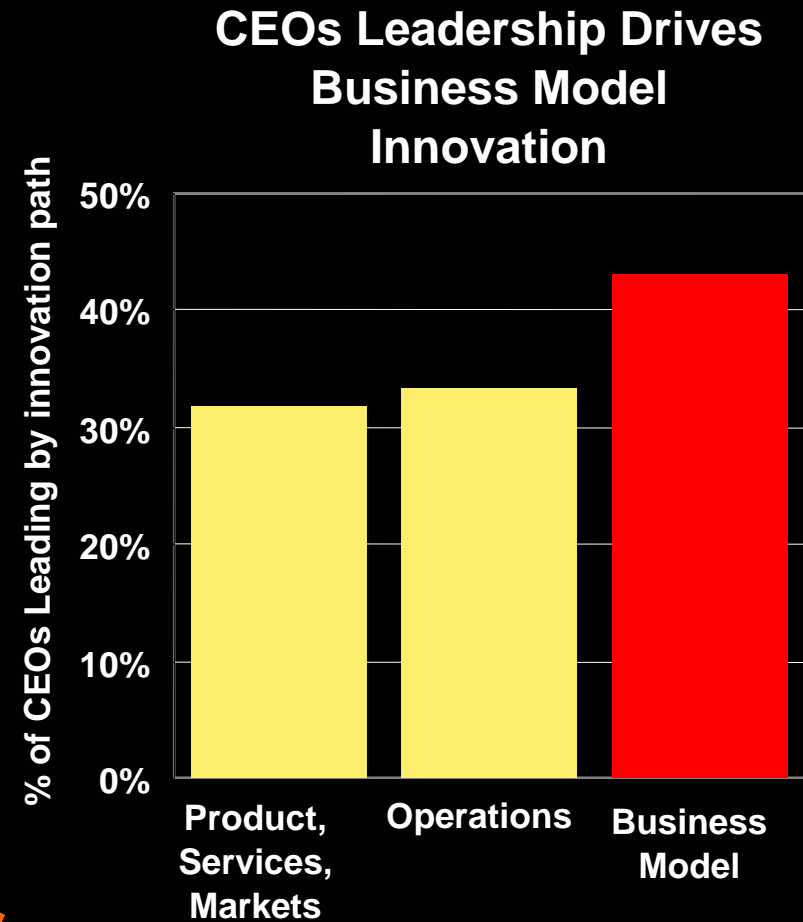
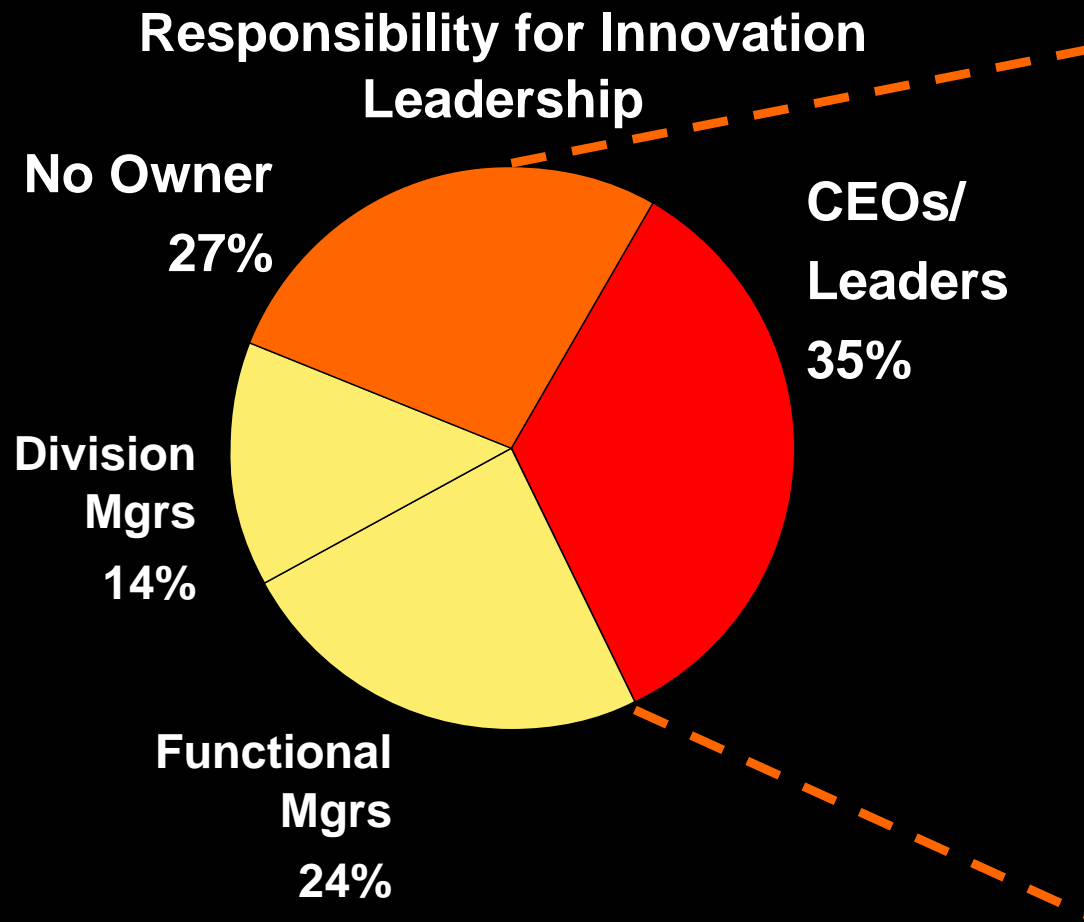
Reality: Business model innovation matters

Myth: Innovation is too critical and proprietary to involve outsiders

Reality: External collaboration is indispensable

Myth: Responsibility for innovation should be delegated

To put in place any of these key enablers, innovation must start at the corner office



❖ *“Leading, setting direction, laying the cultural groundwork that stimulates innovation – it’s essential work for a CEO.”*

So, the key findings around innovation show a change in the fabric of how innovation is seen and managed

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Myth: Innovation means developing new products and services

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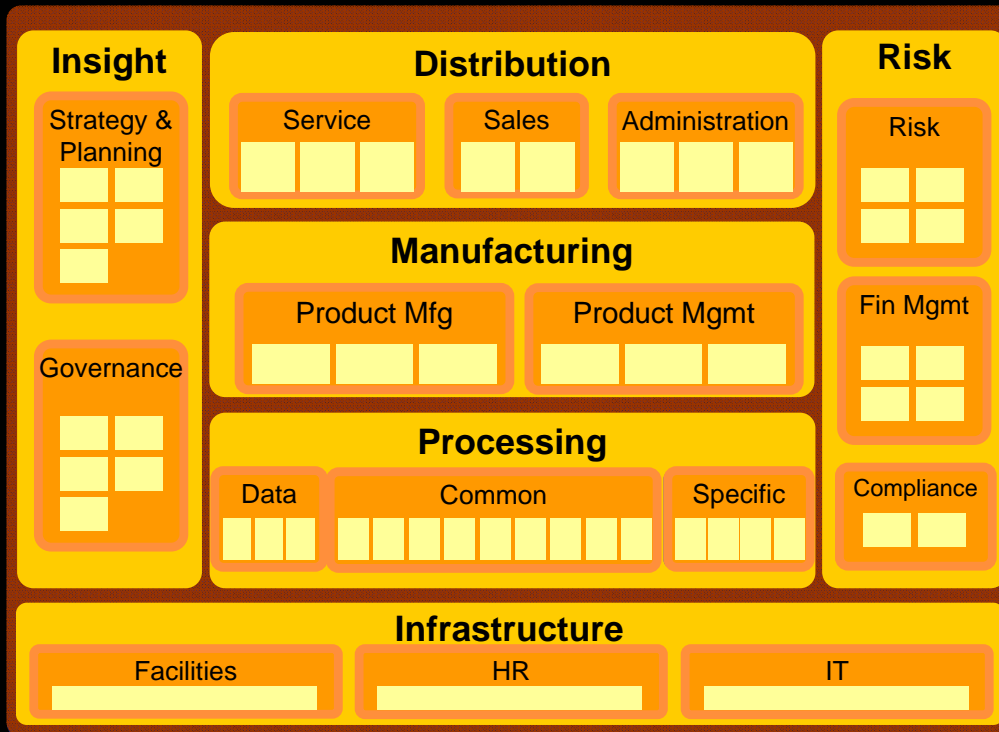
Myth: Responsibility for innovation should be delegated

Reality: Innovation must be orchestrated from the top

Organisations need to specialize: doing fewer things much, much better!



Specialization through Component Business Modeling (simplified view)



Differentiating

- Focus on your uniqueness

Responsive

- Increase the customer voice

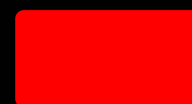
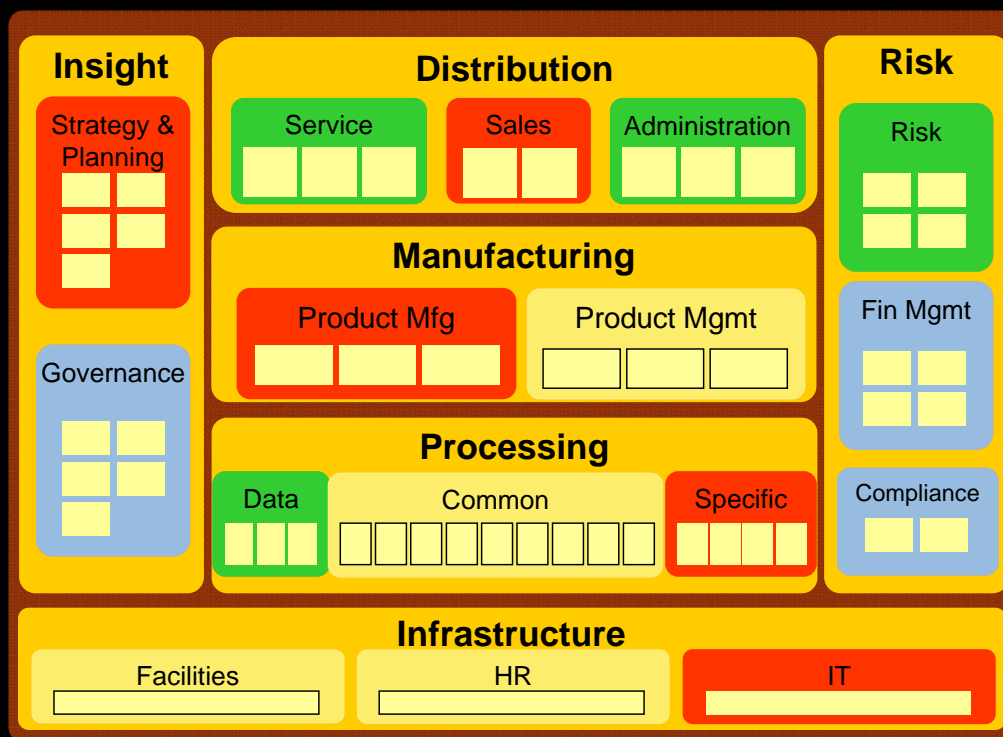
Efficient

- Never forget about costs

To survive, CEO's will have to do fewer things much, much better!



Specialization through Component Business Modeling (Heat Map)



Strategic

- Invest in and expand to gain advantage



Partner

- Develop alliances to meet critical business requirements



Support

- Manage to meet the needs of strategic components



Utility

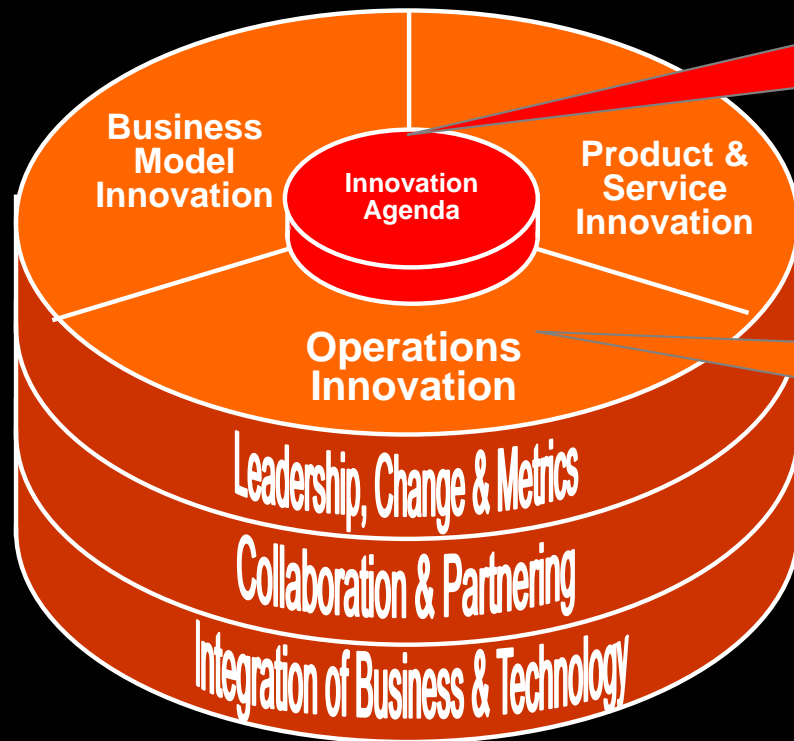
- Use specialists to reduce costs and free up resources



The Global CEO Study 2006 – Innovation

Wheel shows different levels of innovation opportunities

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1. Innovation Agenda

- Leveraging Insight to set the strategic innovation agenda
- Leading and managing the innovation mix

2. Types of Innovation

- Broad set of innovation types that require different capabilities, processes and measurements to succeed

3. Underlying Enablers

- Building the underlying capabilities that support innovation – across all innovation types

SW looks up: discovering the origins of the universe...

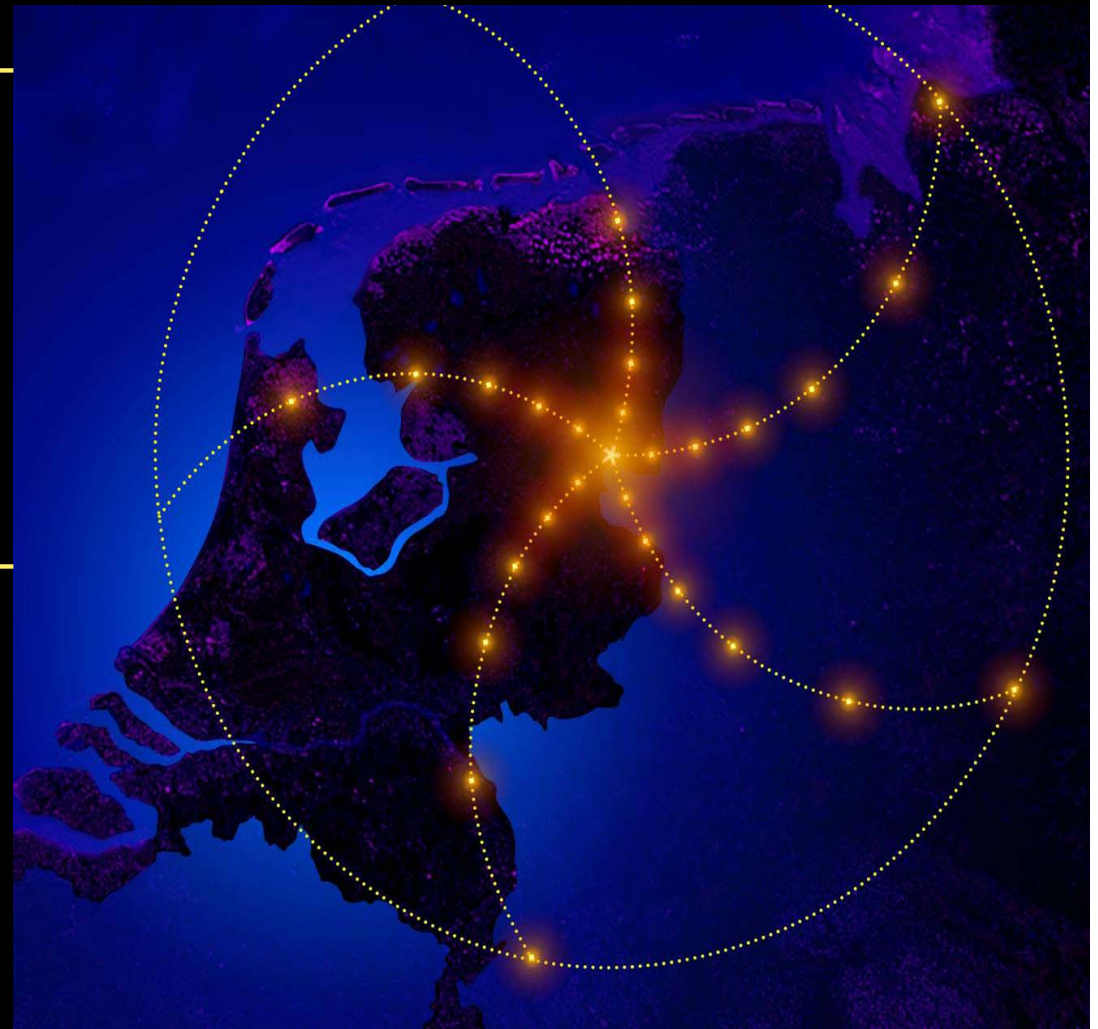
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Business Challenge

- Discover the universe in a radical new way
- Make Europe #1 in the astronomy industry
- Create new business for IBM in this industry

Solution

- A S&D/GTS/GBS collaboration
- Blue Gene configuration equipped with 25,000 processors
- 3 years research collaboration between ASTRON and IBM to develop and optimize the software applications



...By enabling radical innovation creating business value and opportunities

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Innovative aspects

- 25.000 sensors, growing to 100.000's
- Space to earth exploration: mining, agriculture, weather, earth quakes, floods
- Unprecedented processing from incredible numbers of real time sensors



Business value

- Exploring complete new way of gathering, processing and selling data
- High volume, streaming data with continuous, complex modeling in wide-area synchronous hybrid sensor array environment
- Reduced development of data processing infrastructure, from 8-10 person years to less than 1 person year
- Contact: Jan Blommaart (GTS), Reinier van Langen (GBS), Joost Geise (S&D)

Innovating in the utility industry: Automatic meter management...

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Business Challenge

- Automate the process of utility usage readings

Solution

- S&D/GBS/GTS collaboration
- IBM capabilities include: Program management, system development, system package configuration and deployment (for AMM), appliances logistics, appliance guarantee management, appliance installation and more...



Italy



The Netherlands



...is creating new innovation leading to business value and opportunities

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Innovative aspect

- IBM has unique knowledge and experience in automatic meter management leading to a complete new way to collect usage data of customers



Old

New



Business value

- Remotely connect and disconnect service
- More efficiently monitor usage levels
- Reduce customer service costs
- Real time monitoring of usage levels
- Many other IP-applications possible (security, alert, health services etc. etc.)
- Contact: Pieter Verhees (GBS)

Bharti: Changing their business model fundamentally...

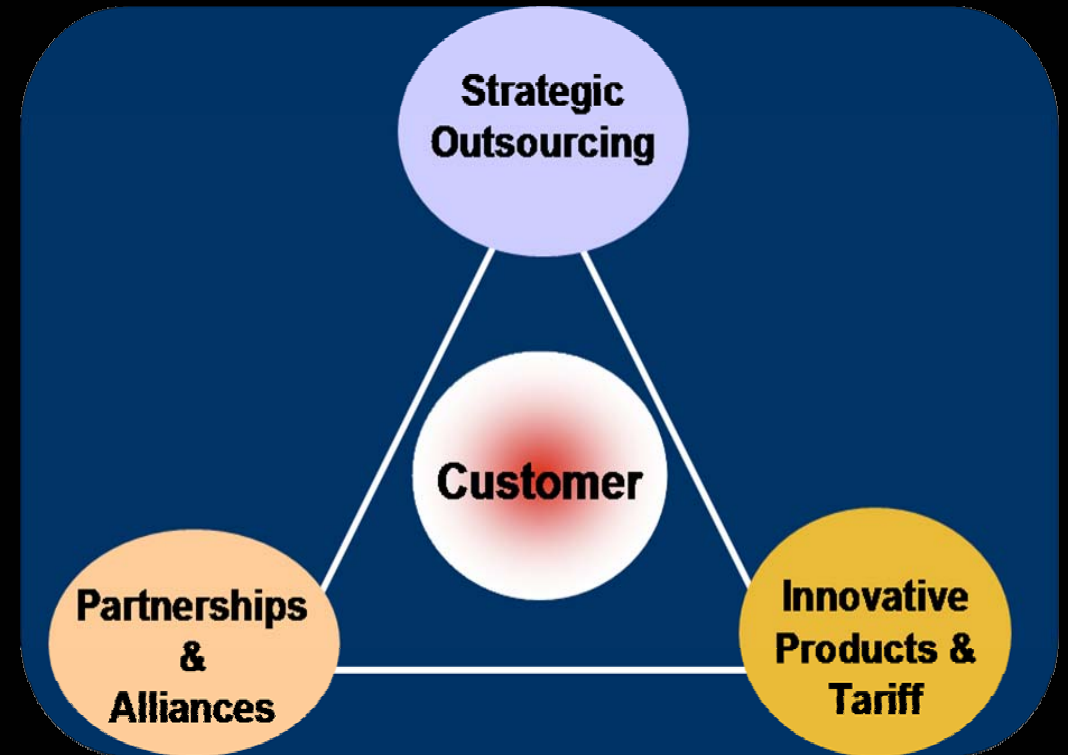
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Situation

- Licenses to provide telecommunication services throughout India
- Rapidly expanding market with short window of opportunity

Business Challenge

- Helping Bharti to build a radically different Telco company...
- A low cost business model with core competencies marketing, sales and distribution focusing on innovative products



... Leading to a best practice in strategic outsourcing

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Solution

- S&D/GBS/GTS collaboration
- IBM solutions: CBM/SPDE architecture/WebSphere Business Integration

Areas outsourced

- Information Technology - **IBM**
- Network Management & Maintenance – *Nokia & Ericsson*
- Call Center – **IBM Daksh**, *Mphasis, Hinduja TMT, TeleTech, Nortel*
- Payroll/Accounting - *Others*

Need to outsource

- Scalability: Gearing up for growth
- Retention: Attraction/Retention of best talent
- Predictability: Predictable cost structure
- Accountability
 - Clearly defined SLAs
 - Risk Sharing

- Leverage expertise of outsourced partner
- Focus on core competence and product innovations

bharti

...By enabling radical innovation creating business value and opportunities

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Innovative aspect

- Fundamentally different business model compared to 'old' telecom companies

Business value

- Much less attention needed of management on IT
- Less capital required to grow
- Focus on talent on those activities that really differentiate Bharti: marketing, sales and distribution
- Subscriber base growth from 7 million to 18 million in two years
- Revenue increase of 60% in 2005
- Contact: Ramesh Awtaney

Telecom Licenses

+

Outsourcing

+

CBM

60% Revenue Growth

bharti

Lessons learned

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- 1. 765 CEO's say they have to change, most fear they will fail**
- 2. Business model innovation is the winning element**
- 3. Use outsiders!**
- 4. Successful CEO's take charge of innovation personally**
- 5. Before you innovate: understand what makes you UNIQUE**
 - Doing fewer things much, much better**
 - Component Business Modeling -> SOA**
- 6. We have GREAT, NEW examples of how we help to innovate**