Innovation that matters
Insights from the 2006 CEO Survey

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The Global CEO Study 2006: Expanding the Innovation horizon!

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

**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

Europe 35%
Asia Pacific 40%
Americas 25%
In the Global CEO Study 2004, CEOs saw a return to topline growth.

Above average growth doubles the odds of creating high shareholder value.

Low-Growth Companies:
- 33% Below Average Shareholder Value Growth
- 67% Above Average Shareholder Value Growth

High-Growth Companies:
- 33% Below Average Shareholder Value Growth
- 67% Above Average Shareholder Value Growth

"Pressure from the markets... It's all about sustainable 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.
Outperformers are nearly twice as likely as underperformers to innovate their business model.

"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.

**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.

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

- 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.

“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.”

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

**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

> Paving the way to the future > Componentized approach
The Global CEO Study 2006 – Innovation Wheel shows different levels of innovation opportunities

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...

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

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...

**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...

**Countries**
- Italy
- The Netherlands
...is creating new innovation leading to business value and opportunities

Innovative aspect

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

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...

**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

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

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
Lessons learned

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