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REPORT

A BCG Senior Management Survey

Innovation 2009

Making Hard Decisions in the Downturn

The Boston Consulting Group

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Note to the Reader

The Boston Consulting Group, working in partnership with *BusinessWeek,* recently completed its sixth annual global survey of senior executives on their innovation practices. This report summarizes that survey's results. It covers the full suite of interrelated activities involved in turning ideas into financial returns, going well beyond ideation and new-product development to include such issues as portfolio and life-cycle management, organizational alignment, and demands on leaders. It discusses what works and what doesn't and the actions companies are taking to make innovation happen. Finally, the report offers pragmatic advice for individuals who want to make a difference in their organizations.

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Executive Summary

The results of our latest annual survey on corporate innovation shed light on a range of topics central to the pursuit of innovation in 2009, including the one foremost on people's minds: the current economic crisis. What impact will it have on companies' objectives, strategies, and tactics? What will it mean for innovation investment, a critical determinant of long-term competitiveness? How are leading companies counteracting and even taking advantage of the challenges they face?

This report discusses these and many other issues related to innovation. We also suggest actions companies can take to maximize their innovation ROI in this challenging environment. Among the report's findings:

- Innovation remains a strategic priority for the majority of companies, but the number that consider it a top priority is falling. Sixty-four percent of survey respondents ranked it a top-three priority, down from 72 percent in 2006 and 66 percent in 2007 and 2008.

- Most companies expect to raise innovation spending in 2009, but they are growing increasingly cautious. Fifty-eight percent of companies plan to raise spending in the year ahead, down from 63 percent in 2008. And significantly, 14 percent of companies expect to *reduce* innovation spending in 2009. North American companies are particularly bearish: fully 21 percent expect to lower their spending on innovation.

- Reflecting a growing sensitivity to costs, companies are increasingly leveraging rapidly developing economies (RDEs). Forty-five percent of respondents said their company will increase its R&D investment in RDEs in 2009, up from 37 percent in 2008.

- Simultaneously, companies are increasing their emphasis on innovation geared toward lowering production costs.

- Companies consider a risk-averse corporate culture and lengthy development times to be the two biggest forces holding down their return on innovation spending.

- Customer satisfaction and overall revenue growth are the two main gauges that companies use to determine the success of their innovation efforts.

- C-level executives are more satisfied with the return on innovation spending than the rest of the company. Sixty-three percent of C-level respondents said they were satisfied, versus 50 percent of vice presidents and managers and 47 percent of other employees.

- CEOs are the most visible champions of innovation at most companies, yet fewer than 30 percent of respondents identified them as such, reflecting a void in leadership and a real opportunity for many companies.

- For the third straight year, respondents ranked the "evergreens"—Apple, Google, and Toyota—the most innovative companies, with Apple the hands-down winner once again.

- While companies should certainly take a critical look at their innovation spending in the downturn, they should not make blanket reductions or adopt too defensive a stance. Indeed, the downturn offers an excellent opportunity to make bold strategic moves that can position a company for an economic rebound and fundamentally strengthen its long-term competitive position.

Innovation in 2009

Uncertainty—and Growing Caution

What does the remainder of 2009 hold for corporate innovation? The results of our latest survey, coupled with the ongoing economic pullback, suggest one answer: uncertainty. Companies are reexamining virtually all aspects of their business on an ongoing basis in an effort to separate the essential from the nonessential, the worthwhile investments from the low-payoff ones—and innovation is certainly in play and likely to receive considerable scrutiny. How will this play out, especially for aggregate innovation investment?

Barring a sharp, rapid acceleration in the economic downturn, there seems little risk of a major reduction in innovation spending in 2009. Most companies do indeed see a direct tie between innovation success and their long-term viability, and they are reluctant to do anything drastic unless their backs are truly up against a wall. There is, however, a very good possibility that companies will cut back at the margins, especially if the economy continues to ratchet downward. In fact, we are already seeing signs of that. Even before the downturn began, companies had been scaling back their investment plans—gently but steadily—over the past several years, possibly in frustration with the lack of return on their innovation spending.[1] (See Exhibit 1.) It is likely that several forces are acting simultaneously to dampen spending.

Against this backdrop, we expect to see the majority of companies essentially stay the course through 2009—but with a bias toward greater caution. They will maintain their innovation-investment programs but become more selective and raise hurdle rates or shorten payback periods for projects. They will undoubtedly pay increasing attention to costs and will look to accomplish more with less—by investing more heavily in RDEs, for example. And they will continue to monitor the economy closely and keep their options open.

Below we take a detailed look at our survey's findings, which reflect the insights of over 2,700 executives. They touch on attitudes, goals, methods, and competencies and present a fascinating snapshot of today's increasingly challenging innovation landscape.

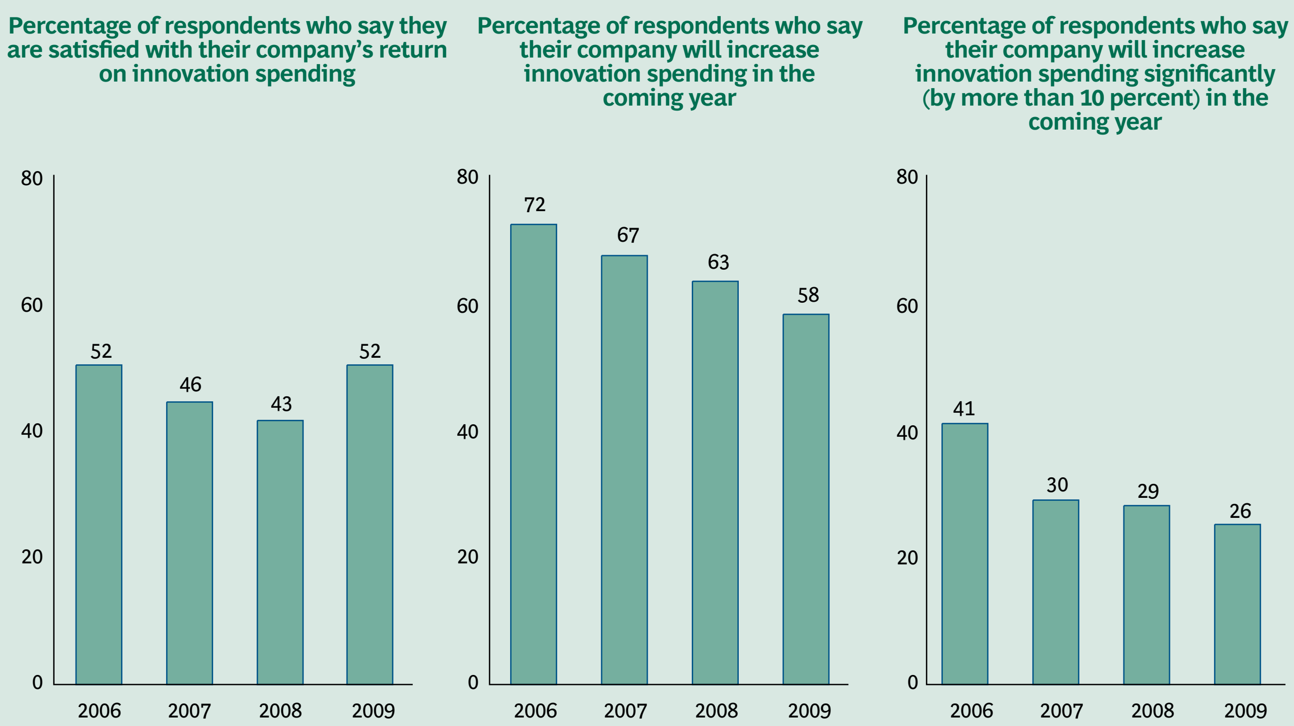
The Primacy of Innovation…

Current economic uncertainty notwithstanding, innovation remains a top focus for the majority of companies. (See Exhibit 2.) Fully 64 percent of respondents identified it as one of their top-three strategic priorities, and only 10 percent said that innovation was not a priority. Technology companies, perhaps not surprisingly, attach the greatest importance to innovation: 74 percent of respondents said it was a top-three priority, with 31 percent calling it their company's number-one strategic priority. (See the Appendix for a look at where innovation ranks as a strategic priority for other industries.)

As we have noted in the past, making innovation a priority is a smart move. There is a strong correlation between innovation prowess and overall business success, as evidenced by the organizations that consistently top our list of the most innovative companies. Emphasizing innovation is also a proven boon to shareholders. We looked at the total shareholder returns (TSR) of the most innovative companies (as identified by our survey respondents) versus those of their industry peers for both the three- and ten-year periods ending December 31, 2008; the results were striking. (See Exhibit 3.) Glob-

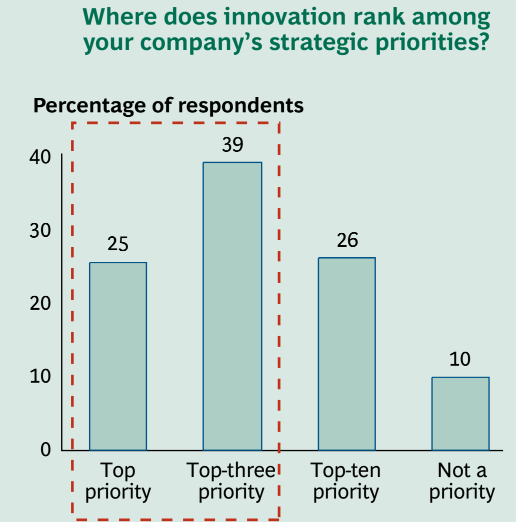
1. See *Innovation 2008: Is the Tide Turning?* BCG report, August 2008.

Exhibit 1. Persistently Low Satisfaction with Innovation ROI May Be Weighing on Spending Plans



Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey; BCG 2007 Senior Executive Innovation Survey; BCG 2006 Senior Executive Innovation Survey.

Exhibit 2. Innovation Remains a Top Strategic Focus for the Majority of Companies



Source: BCG 2009 Senior Executive Innovation Survey.

ally, on an annualized basis, innovators outperformed their peers by 430 basis points over the last three years and by 260 basis points over the last ten years—a sizable premium. The pattern of substantial outperformance held when we looked at regional performance—for example, how innovators based in Europe did compared with their European industry peers. Clearly, if you are an investor, you'd do well to seek out innovative companies.

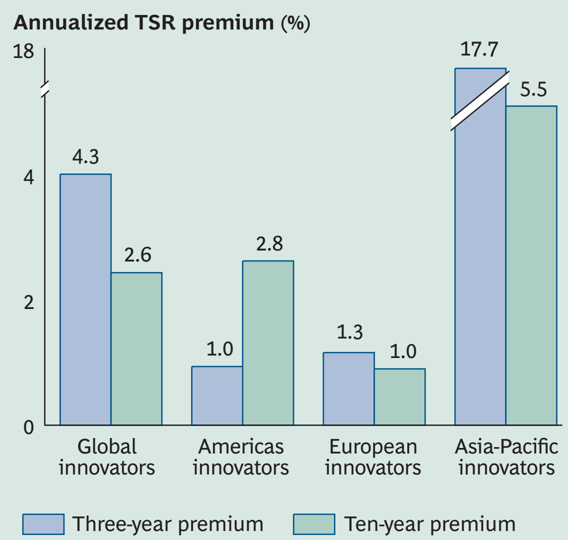
…But at What Cost?

Companies continue to invest in order to drive innovation: the majority (58 percent) of survey respondents said their company would boost innovation spending in 2009. By region, Asia-Pacific companies have the most aggressive plans, with 73 percent planning to raise spending and 35 percent planning to raise it significantly (that is, by more than 10 percent). By industry, technology and telecommunications companies are the most bullish: 68 percent of respondents said their company would raise spending, and 32 percent said their company would do so significantly.

But the economic pullback may compel some companies to rethink their plans. Indeed, this year's poll showed something new in our survey's six-year history: a jump in the percentage of companies that expect to actively *cut* innovation spending in the year ahead. Fourteen percent of respondents said their company would do so; 5 percent said they would cut spending significantly. Most bearish by industry are travel, tourism, and hospitality companies (20 percent said their company would cut spending) and financial services companies (19 percent)—two of the economy's biggest casualties to date. By region, North American companies, which have been on the leading edge of the crisis, are the most cautious, with a sizable 21 percent expecting to cut investment.

Exhibit 3. Innovative Companies Are Superior Investments

Three- and ten-year annualized total-shareholder-return (TSR) premiums of innovative companies compared with their industry peers



Sources: BCG 2009 Senior Executive Innovation Survey; BCG ValueScience Center analysis.
Note: Returns were annualized for December 31, 2005, to December 31, 2008, for the three-year comparison, and for December 31,1998, to December 31, 2008, for the ten-year comparison, and account for price appreciation and dividends. To generate the comparison data, we compared the TSR of each innovative company, as identified by survey respondents, with the TSR of its industry overall and averaged the differences globally and by region.

As noted, there is another dynamic, independent of the downturn, that is likely to weigh on spending in 2009: dissatisfaction with the return on investment. As Exhibit 1 illustrates, the percentage of companies that expect to raise innovation spending in the year ahead has been trending downward for the past several years, closely tracking a drop in satisfaction with the return on that spending. Correlation does not, of course, imply causation. But we can safely assume, at a minimum, that persistently low satisfaction with innovation ROI is unlikely to drive spending higher.

And "persistently low" is an accurate characterization: even with a rebound in satisfaction this year (to 52 percent, from 43 percent in 2008), only one in two executives is satisfied. And this is the high side of the norm: over the last six years, the proportion of survey respondents who declared themselves satisfied has averaged less than 48 percent. No wonder companies have been questioning innovation spending. In 2009, dissatisfaction was particularly high among North American companies (only 42 percent were satisfied) and among entertainment and media companies (46 percent) and retailers (49 percent).

Finally, it is worth highlighting the ongoing difference in opinion between C-level executives and the rest of the company. In 2009, 63 percent of C-level executives said they were satisfied with their company's return on innovation spending, versus 50 percent of vice presidents and managers and 47 percent of other employees. This gap, which has endured over the course of our surveys, prompts the obvious question: Who is right? Does the top brass have blinders on? Or does the rest of the company lack the information or perspective necessary to fully understand the cost-benefit calculation?

Key Metrics: Customer Satisfaction and Revenue Growth

How do companies determine whether and to what degree their innovation investments are paying off? As we have observed in previous reports, most companies use a fairly short list of metrics—far too short, in our view. (See our companion report, *Measuring Innovation 2009: The Need for Action,* for a detailed look at companies' innovation-measurement practices.) The two most widely used yardsticks are customer satisfaction (identified by 44 percent of respondents) and overall revenue growth (41 percent). (See Exhibit 4.)

Curiously, one of the least popular metrics remains time to market (19 percent), a chronically underutilized metric according to our surveys and experience. The irony here is that respondents consistently identify a lack of speed as one of their biggest weaknesses when it comes to execution, as well as one of the biggest hurdles to raising the return on their innovation investments.

That remains the case in 2009. It would not be too great a reach to say that until companies start to measure this factor aggressively and regularly, they have little hope of moving it off the top of the list of their biggest obstacles.

Different industries have their own pet metrics, of course. The following are a few noteworthy examples:

- Pharmaceutical, biotechnology, and health care companies focus more than most companies on the number of new offerings

- Retailers look especially closely at the percentage of sales from new offerings, customer satisfaction, and projected versus actual performance

- Automotive companies place particular emphasis on margin growth and time to market

There are also some interesting preferences by region:

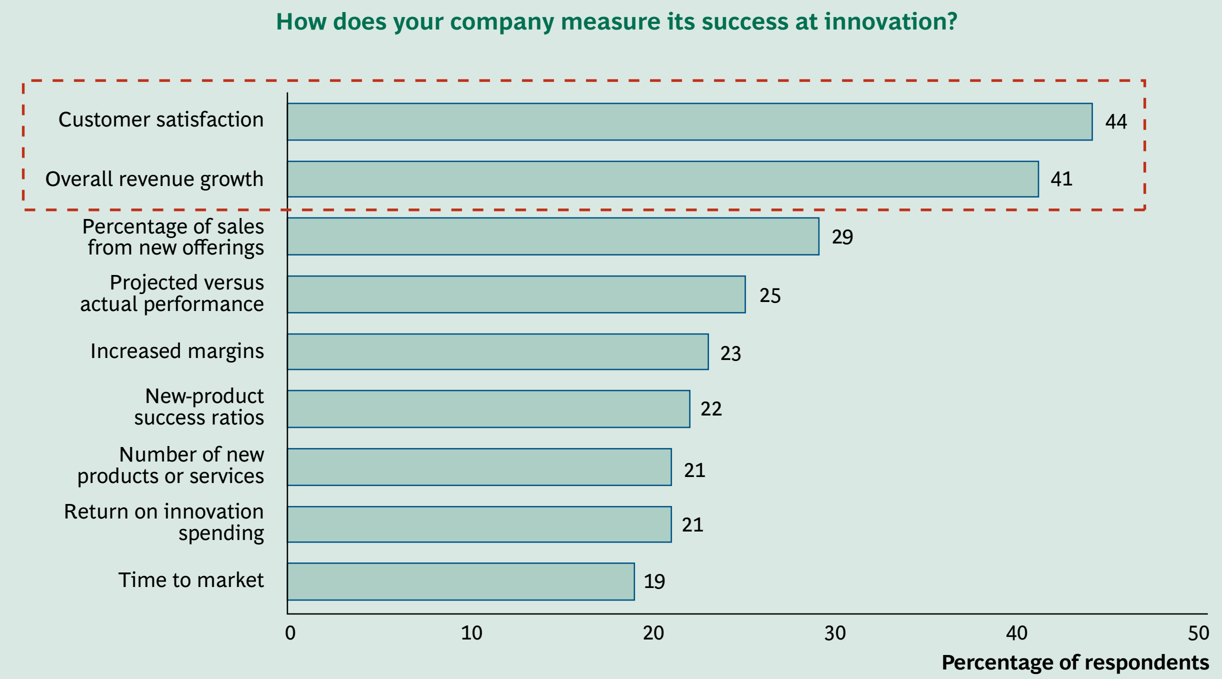
- North American companies place significant emphasis on overall revenue growth and relatively little weight on time to market, the number of new offerings, and new-product success ratios

- Asia-Pacific companies place heavy emphasis on new-product success ratios and innovation ROI

Obstacles to Boosting Investment Returns: Risk Aversion and Lengthy Development Times

When asked to identify the factors that are preventing their companies from generating better returns on their innovation investments, respondents scattered their picks fairly widely. (See Exhibit 5.) The most popular answers were a risk-averse corporate culture (29 percent of respondents) and lengthy development times (27 percent), which

Exhibit 4. Customer Satisfaction and Overall Revenue Growth Are the Most Commonly Used Measures of Innovation Success



Source: BCG 2009 Senior Executive Innovation Survey.

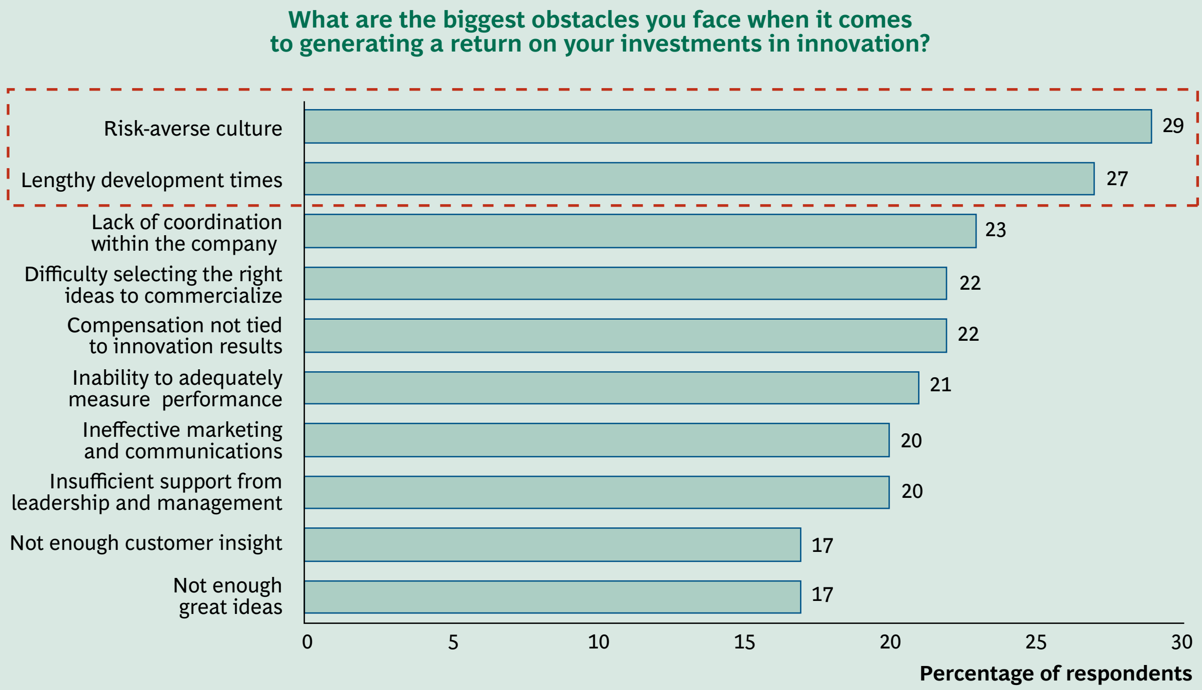
have been the top two responses for the past several years. On the surface, this suggests that companies are doing little to address their biggest problems. A closer look, however, reveals that the percentage of respondents who identified these factors as obstacles has been moving downward and fell fairly significantly this year, indicating that at least some companies are making headway. (In 2008, both factors were identified by 36 percent of respondents.)

There was again some interesting variation by industry:

- Automotive companies wrestle with difficulties in marketing and publicizing their innovations
- Retailers *and* automotive companies believe their returns are negatively affected by a lack of executive support
- Entertainment and media companies struggle especially with a lack of customer insight

It is worth noting that, as in past surveys, a fairly small number of respondents—17 percent this year—identified a shortage of great ideas as a hurdle to higher returns. We have discussed the distinction between ideas and innovation in previous reports, but the point is worth making again. New ideas are rarely in short supply. In fact, as we see every day in our innovation practice and our work with companies, most organizations have an abundance of good and often great ideas. But generating ideas and being able to turn those ideas into cash are two entirely different things. The world's top innovators have mastered both and do not get distracted by the mantra often heard in the press and from pundits that the problem is a need for "breakthrough ideas." That simply is not true, as this year's survey again proves.

Exhibit 5. A Risk-Averse Culture and Lengthy Development Times Are the Biggest Hurdles to Improving the Return on Innovation Spending



Source: BCG 2009 Senior Executive Innovation Survey.

Objectives and Tactics

What are companies specifically targeting with their innovation efforts? And what levers are they using? The answers to these questions may be starting to change in response to the economy.

A Growing Emphasis on Cost Reduction…

Companies can direct their innovation efforts at a range of objectives, from small upgrades to existing products to new offerings that spawn entire industries. For the past three years, we have asked respondents to prioritize among five of them:

- "New to the world" products or services that create entirely new markets
- New offerings that allow expansion into new consumer groups
- New offerings for existing customers
- Incremental changes to existing offerings
- Lower production costs for existing offerings

New offerings for existing customers has been the top choice in each of the past several years, followed by new offerings that allow expansion into new consumer groups. In 2009, those two objectives were identified, respectively, by 88 percent and 85 percent of respondents as important or extremely important to their company's success. (See Exhibit 6.) These percentages are nearly identical to what we saw in 2008.

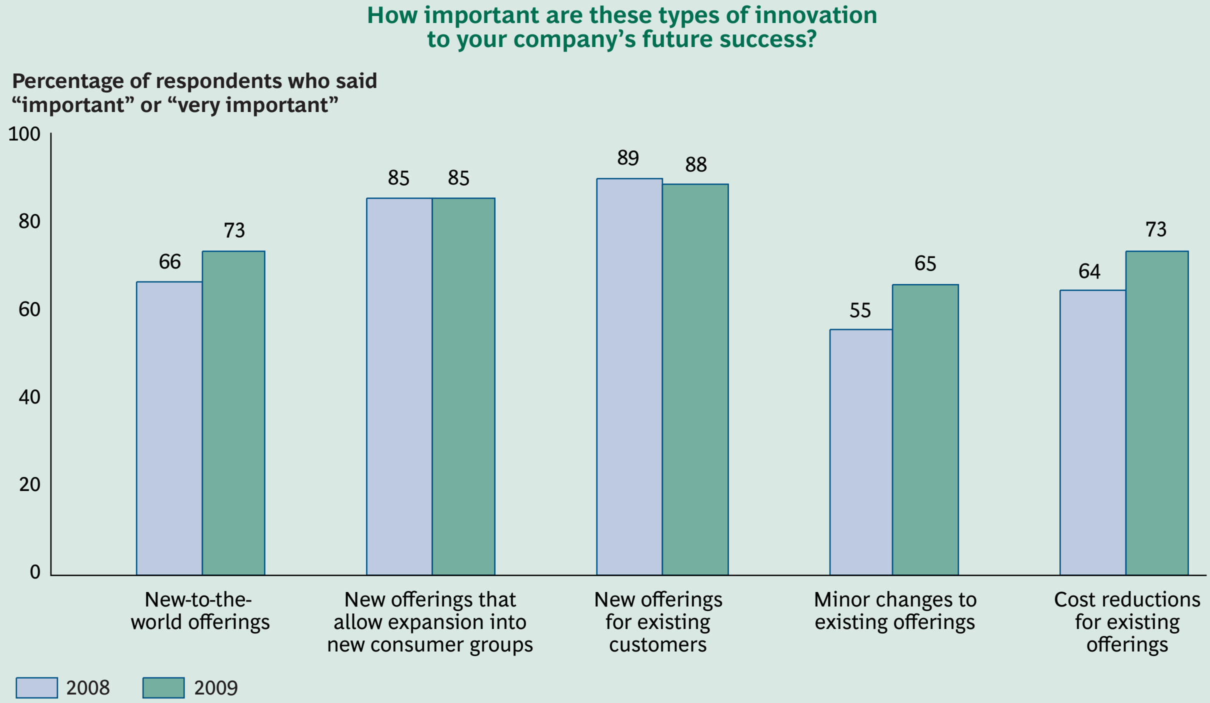
There was, however, an eye-catching change in the importance attached to innovation leading to lower production costs. In 2008, 64 percent of respondents said that type of innovation was important or extremely important to their business; in 2009, the percentage was 73. Presumably, many companies anticipate limited pricing power or revenue growth in the months ahead and are seeking to maintain profitability through lower input costs. (In a similar vein, there was an increase in the number of companies emphasizing innovation that leads to incremental changes to existing products; 65 percent of respondents said that it was important or extremely important to their business, versus 55 percent in 2008. This is likely another sign of lowered expectations—and pragmatism.) This emphasis on lower production costs can be expected to grow if the economy continues to contract.

In parallel, there was a rise in the value assigned to innovation that generates new-to-the-world offerings that create entirely new markets. Seventy-three percent of respondents identified it as important or extremely important this year, versus 66 percent in 2008. This could be a case of companies attacking the same problem from the opposite angle: with top-line growth in their traditional markets likely to remain stagnant or contract in the months ahead, why not seek entirely new revenue streams—and why not aim high?

Responses to the question of which type of innovation is most important were fairly uniform by industry, but there were some outliers, most of which were driven by the particular industry dynamics these players face.

- Technology and telecommunications companies attach critical importance to new-to-the-world offerings, as do industrial and manufacturing companies (81 per-

Exhibit 6. Companies Continue to Attach the Greatest Value to Innovation That Leads to New Offerings for Existing Customers—but the Focus Is Shifting



Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey.

cent and 80 percent, respectively); these two industries are among the most globally competitive of the ones we surveyed

- Automotive companies are the most focused on reducing production costs: fully 89 percent of industry respondents said it was important or extremely important

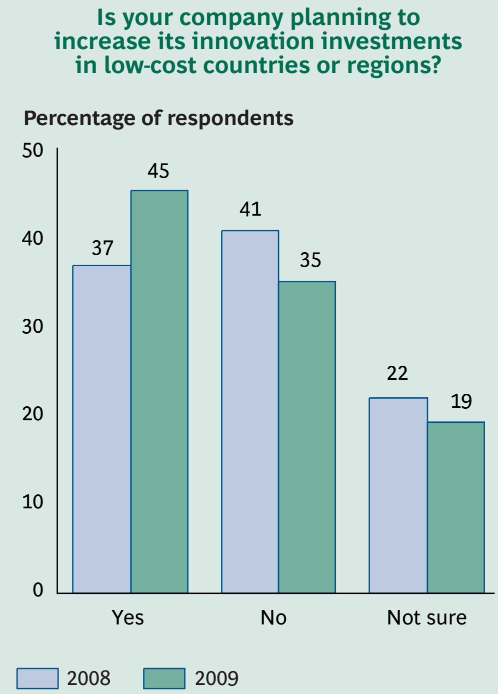
- Travel, tourism, and hospitality companies are the biggest proponents of innovation leading to new offerings that allow expansion into new consumer groups: 89 percent of industry respondents identified it as important or extremely important

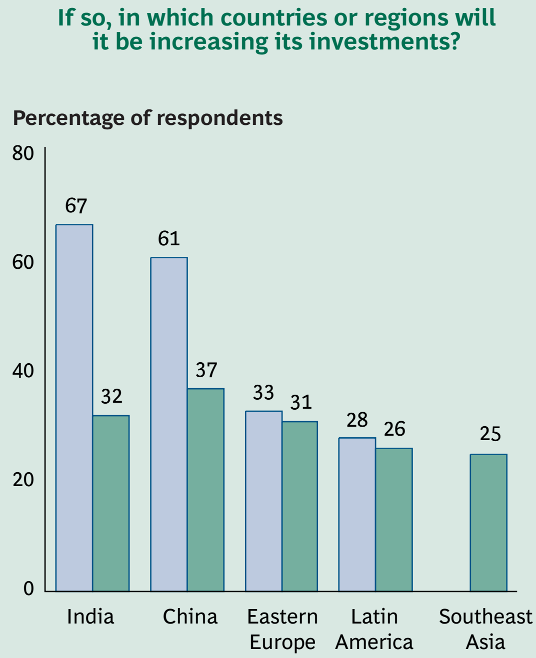
…And a Larger Role for Rapidly Developing Economies

Companies have been taking a consistent but measured approach to increasing the use of RDEs in their innovation efforts, nudging up the emphasis on these economies over time. In 2007, for example, 38 percent of survey respondents said they planned to increase their RDE exposure in the year ahead; in 2008, 37 percent said so. In 2009, the percentage jumped to 45, consistent with a growing sensitivity to costs. (See Exhibit 7.) By region, Asia-Pacific companies have the most aggressive plans, with 70 percent expecting to increase their investment in RDEs. In contrast, only 46 percent of European and 31 percent of North American companies plan to do so. By industry, technology and telecommunications companies and industrial and manufacturing companies are the most bullish: 60 percent and 58 percent of executives from these industries, respectively, said their company would raise its R&D investment in RDEs.

Also worth noting is the change in how companies plan to direct those investments. In 2008, among companies that expected to increase their use of RDEs, India and China were outsized targets: 67 percent and 61 percent of respondents said their company would raise its investment in these two countries, respectively. In 2009, however, planned incremental investments in India and Chi-

Exhibit 7. Companies Are Increasing Their Emphasis on Rapidly Developing Economies—but Are Being Highly Selective





Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey.
Note: Southeast Asia was not offered as a choice in the 2008 survey.

na fell sharply, with only 32 percent of companies planning to raise their stake in India and only 37 percent planning to raise it in China. Planned incremental investment in all other regions also fell, though by much smaller degrees.

Companies planning to increase their use of RDEs also intend to scale back their investments in each of the various innovation capabilities, especially product development. (See Exhibit 8.) In 2008, nearly three out of four companies that planned to raise their RDE weighting intended to invest more heavily in product development. In 2009, that percentage fell to 49. Investment in all other components of innovation—testing, design, idea generation, and basic research—also declined, though by small margins.

How to interpret this? Viewed through the lens of the increasingly uncertain economic outlook, it's a sound response that is to be expected. Companies are tightening the reins on costs, and RDEs can be a powerful lever in that effort. Simultaneously, companies are becoming increasingly selective in an effort to maximize the impact of the bets they do make.

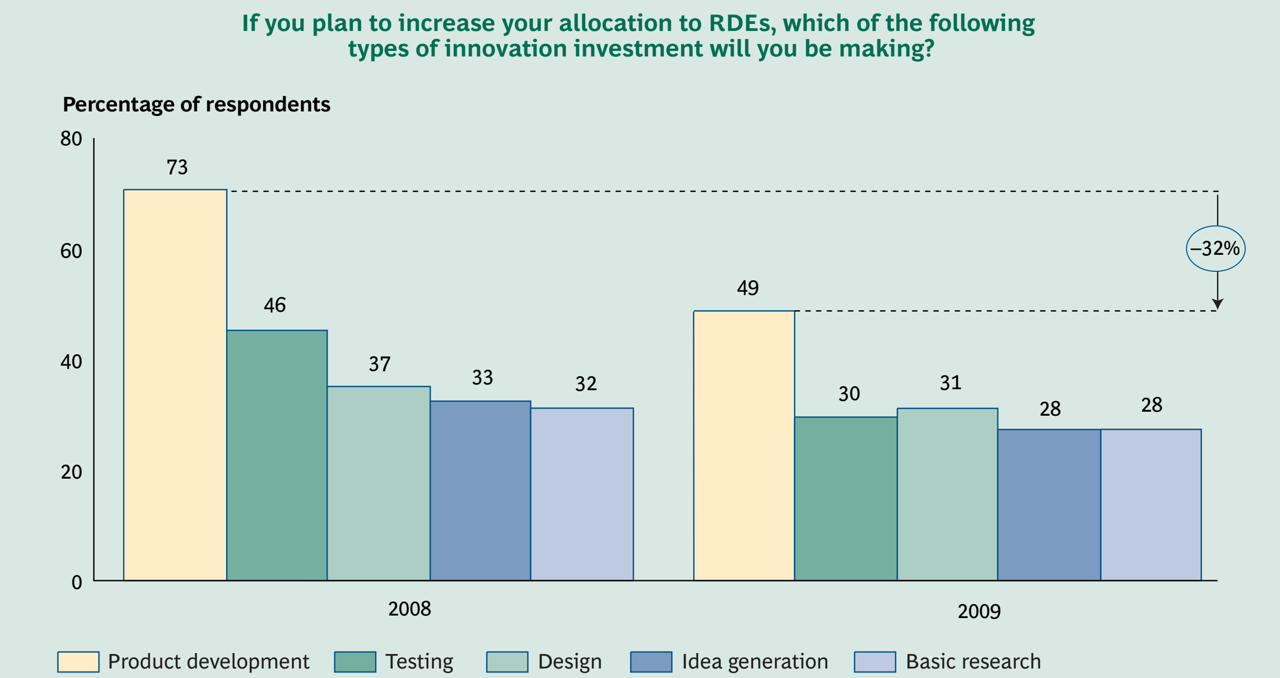
Noteworthy results by industry include the following:

- Automotive companies and industrial-goods and manufacturing companies have the most aggressive plans regarding China, with 47 percent and 45 percent, respectively, planning to raise their weighting there (versus a 37 percent global average)

- Automotive companies, in particular, are guarded about delegating idea generation to RDEs: only 13 percent of industry respondents said their company would raise its allocation, versus a 28 percent global average; simultaneously, a greater than average percentage of automotive industry respondents (47 percent, versus a 31 percent global average) said their company would increase its use of RDEs for product design

- Energy companies are investing aggressively in product development in RDEs: 65 percent of respondents

Exhibit 8. Companies Are Scaling Back Their Investment in Product Development in Rapidly Developing Economies



Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey.

said their company would increase its allocation, versus a 49 percent global average

There were also some interesting results by region:

- A strong bias toward local markets prevails: European companies have the most aggressive plans regarding investments in Eastern European RDEs, Asia-Pacific companies have the most aggressive plans regarding China, and Latin American companies have the most aggressive plans regarding Latin American RDEs; again, this is consistent with a rising premium on risk mitigation

- Asia-Pacific companies plan to make relatively heavy investments in RDEs for basic research, idea generation, and design

M&A Activity?

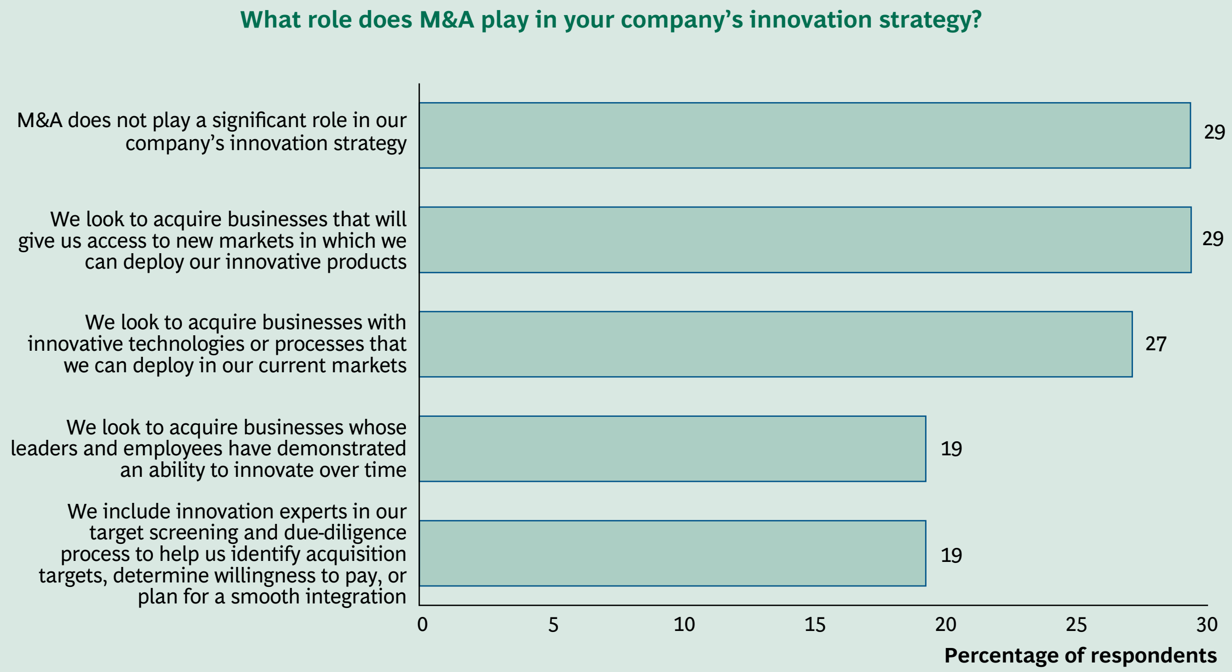
Much corporate innovation activity is organic, in-house, and internally generated or orchestrated. But not all. In this year's survey we posed a new question: What role do mergers and acquisitions (M&A) play in your company's innovation strategy? The salient finding: M&A does indeed play a key role for many companies. (See Exhibit 9.) Companies are using M&A to achieve a range of ends: to gain access to new markets (29 percent of respondents said their company engages in or has engaged in M&A for this purpose), acquire innovation-supporting technology (27 percent), and secure innovative leaders and personnel (19 percent). Companies are also using innovation experts to vet potential acquisitions (19 percent).

M&A's specific role varies by industry—and by region:

- As might be expected, M&A plays an outsized role among pharmaceutical, biotechnology, and health care companies (only 19 percent of respondents from that industry said that M&A does *not* play a significant role in their innovation strategy)

- Consumer products companies make relatively heavy use of innovation experts to vet acquisition targets (25

Exhibit 9. Mergers and Acquisitions Play a Role in Many Companies' Innovation Strategies



Source: BCG 2009 Senior Executive Innovation Survey.

percent of industry respondents, versus a 19 percent global average); they also aggressively employ M&A to acquire innovation talent and leadership (26 percent, versus a 19 percent global average)

- Automotive companies make active use of M&A to acquire innovative technologies that can be deployed in their existing businesses (38 percent, versus a 27 percent global average)

- By region, European companies employ M&A most aggressively; only 24 percent of respondents said it was *not* a major part of their innovation strategy

- Asia-Pacific companies employ M&A actively on all fronts, particularly to acquire technology and expertise and gain access to new markets

- North American companies, in contrast, make relatively limited use of M&A; 36 percent of respondents said it does not play a significant role in their innovation strategy

Execution

Successes and Challenges

A successful innovation process requires a range of capabilities, from idea generation and R&D through portfolio management and product launch. We asked respondents to gauge their organization's performance, from excellent to poor, in these specific areas:

- Developing a deep understanding of customers
- Partnering with suppliers and others for new ideas
- Ensuring executive-level support for projects
- Enforcing timelines and milestones
- Earmarking sufficient funds for projects
- Moving quickly from idea generation to initial sales
- Balancing risks, time frames, and returns across an entire portfolio of projects
- Fostering a company culture that promotes innovation

There were few surprises in the responses; indeed, this self-assessment yields strikingly similar results from year to year. This continuity suggests that companies are maintaining or building on their strengths. But it also suggests that companies are not addressing their weaknesses effectively—if they are addressing them at all.

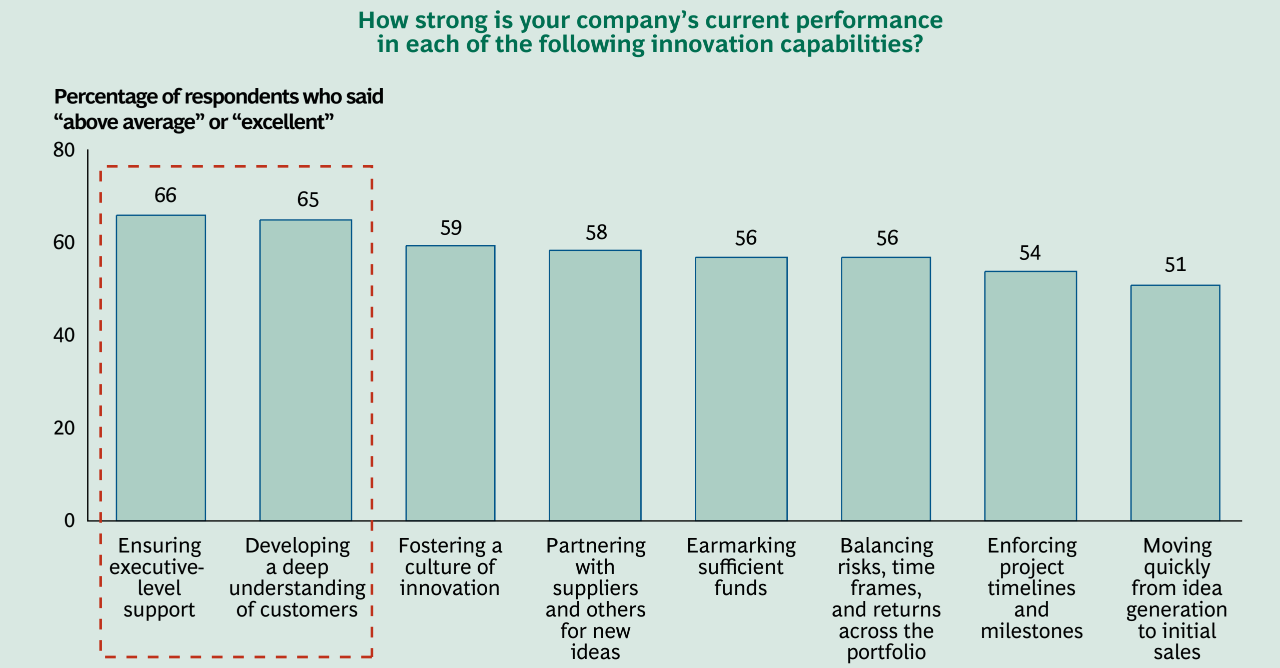
Successes: Executive Sponsorship and Customer Knowledge

For the last four years, companies have consistently given themselves the highest marks in two areas—ensuring executive-level sponsorship of projects and developing a deep understanding of customers. In 2009, 66 percent and 65 percent of respondents rated their company excellent or above average at those two capabilities, respectively. (See Exhibit 10.) Energy companies consider executive sponsorship to be a particular strength (73 percent). The ability to develop a deep understanding of customers is considered a strong suit by financial services companies (71 percent), pharmaceutical, biotechnology, and health care companies (70 percent), and Asia-Pacific companies generally (76 percent).

As in prior years, many respondents (59 percent) also rated their company excellent or above average at fostering a company culture that promotes innovation. This is noteworthy, given that a risk-averse culture has been consistently identified in our surveys as one of the largest obstacles to maximizing the return on innovation investment. (As noted above, it was the *biggest* obstacle in 2009.) Technology and telecommunications companies (68 percent) judge culture to be a particular strength.

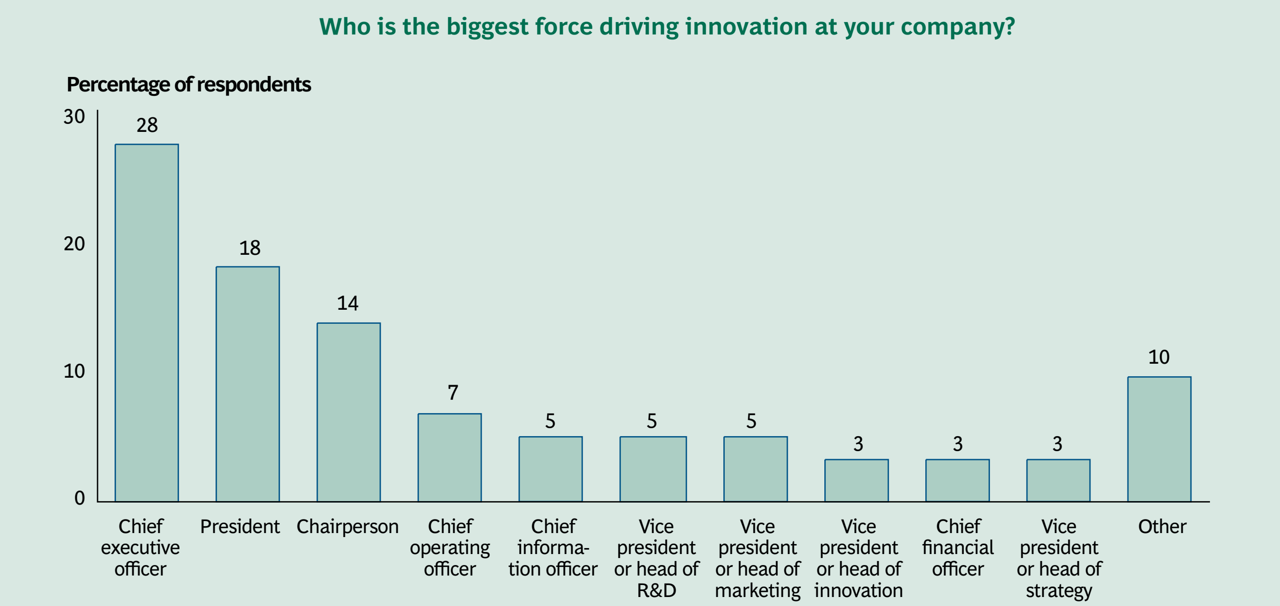
A linchpin of both executive sponsorship and a supportive culture is, of course, strong leadership. As in years past, respondents in 2009 identified the CEO as the biggest driver of innovation at their company. (See Exhibit 11.) Yet only 28 percent of respondents said so, suggesting that in many companies there is a real leadership vacuum. That vacuum can come at a substantial cost, since our experience confirms that a CEO who is visibly committed to innovation can play a determining role in the ultimate success or failure of a company's innovation efforts. Leaders should do some soul-searching and determine whether they are giving innovation all the support it truly needs. And they should make it a candid self-assessment: while 79 percent of CEOs, presidents, and

Exhibit 10. Executive Support and Deep Customer Understanding Are Companies' Greatest Strengths



Source: BCG 2009 Senior Executive Innovation Survey.

Exhibit 11. The CEO Is the Biggest Driver of Innovation



Source: BCG 2009 Senior Executive Innovation Survey.

chairmen and chairwomen said they do an excellent or above-average job at ensuring executive-level support for innovation projects, only 64 percent of other respondents thought so.

There were some interesting results by industry:

- Travel, tourism, and hospitality companies consider themselves particularly strong at enforcing project timelines and milestones (66 percent of respondents consider their company excellent or above average at it, versus a 54 percent global average)

- Industrial goods and manufacturing companies consider themselves strong at securing sufficient funds for projects (66 percent, versus a 56 percent global average)

Challenges: Speed and Discipline

Respondents also acknowledged shortcomings in their innovation capabilities—and again, there were strong echoes from previous surveys. The most commonly identified challenge (45 percent of respondents) was speed—the time it takes to move from idea generation to initial sales. (See Exhibit 12.) Speed was deemed a particular problem by automotive companies (56 percent of respondents rated their company below average or poor) and energy companies (54 percent). The second most commonly identified challenge (41 percent) was discipline—the ability to strictly enforce timelines and milestones. North American companies generally struggle with this capability (48 percent).

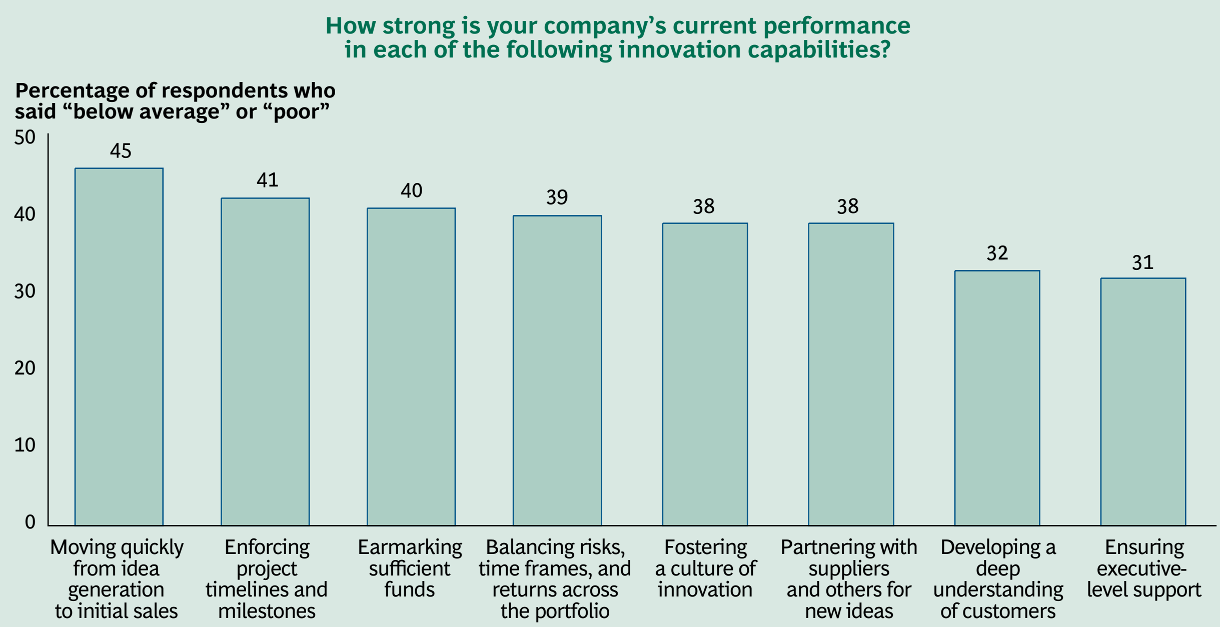
These two capabilities, it should be noted, were identified as the top two challenges in our 2007 and 2008 surveys and ranked high in earlier surveys as well. Clearly, companies need to give far greater attention to these areas.

Every industry wrestles with its own particular challenges, of course. Among the more noteworthy findings:

- Entertainment and media companies and energy companies struggle to develop a deep understanding of customers (41 percent and 39 percent, respectively, rate themselves below average or poor, versus a 32 percent global average)

- Automotive companies struggle with fostering a culture that supports innovation (55 percent, versus a 38 percent global average)

Exhibit 12. Speed and Discipline Are Companies' Greatest Challenges



Source: BCG 2009 Senior Executive Innovation Survey.

The Most Innovative Companies

Before 2008, our rankings of the most innovative companies were based on a single criterion—respondents' picks. In 2008, in an effort to make the results more robust and truly reflective of the actual top innovators, we supplemented those choices with three financial measures: three-year shareholder returns, three-year revenue growth, and three-year margin growth. We used that same methodology this year. Respondents' votes counted for 80 percent of the ranking, shareholder returns for 10 percent, and revenue and margin growth for 5 percent each.

We also asked respondents to specify, from the following five general criteria, their primary reason for picking each company (they could also choose "other"):

- The company employs innovative operational *processes* that give it an advantage
- The company's *business models* for revenue streams are new and differentiated
- The company has created unique *customer experiences* that create loyalty
- The company has developed breakthrough *products*
- The company has developed breakthrough *services*

The results are presented in Exhibit 13. Apple, Google, and Toyota once again took the top three spots, as in 2007 and 2008. (There were some significant changes elsewhere in the rankings, however.) Exhibit 14 shows the rankings of the top five innovators within each industry. These results are based solely on respondents' votes (that is, no financial criteria were employed).

We also asked respondents to name the companies they considered to be particularly innovative that are not yet broadly recognized as such. Exhibit 15 highlights a number of those companies.

Exhibit 13. Apple, Google, and Toyota Remain the Pacesetters

Which global companies do you consider the most innovative and why?

Rank	Company	Primary reason for selection
1.	Apple	Breakthrough products
2.	Google	Unique customer experiences
3.	Toyota Motor Corporation	Innovative processes
4.	Microsoft Corporation	Innovative processes
5.	Nintendo	Breakthrough products
6.	IBM Corporation	Innovative processes
7.	Hewlett-Packard Development Company	Innovative processes
8.	Research in Motion	Breakthrough products
9.	Nokia Corporation	Breakthrough products
10.	Wal-Mart Stores	Innovative processes
11.	Amazon.com	Unique customer experiences
12.	Procter & Gamble	Innovative processes
13.	Tata Group	Breakthrough products
14.	Sony Corporation	Breakthrough products
15.	Reliance Industries	New and differentiated business models
16.	Samsung Electronics	Breakthrough products
17.	General Electric Company	Innovative processes
18.	Volkswagen	Unique customer experiences
19.	McDonald's	Unique customer experiences
20.	BMW Group	Unique customer experiences
21.	The Walt Disney Company	Unique customer experiences
22.	Honda Motor Company	Breakthrough products
23.	AT&T	Breakthrough products
24.	The Coca-Cola Company	Unique customer experiences
25.	Vodafone Group	Breakthrough products
26.	Infosys Technologies Limited	Innovative processes
27.	LG Electronics	Breakthrough products
28.	Telefónica	New and differentiated business models
29.	Daimler	Breakthrough products
30.	Verizon Communications	Unique customer experiences
31.	Ford Motor Company	Breakthrough products
32.	Cisco Systems	Innovative processes
33.	Intel Corporation	Innovative processes
34.	Virgin Group	Unique customer experiences
35.	ArcelorMittal	New and differentiated business models
36.	HSBC Group	Innovative processes
37.	Exxon Mobil Corporation	Innovative processes
38.	Nestlé	Breakthrough products
39.	Iberdrola	Unique customer experiences
40.	Facebook	Unique customer experiences
41.	3M	Breakthrough products
42.	Banco Santander	New and differentiated business models
43.	Nike	Unique customer experiences and breakthrough products (tie)
44.	Johnson & Johnson	Unique customer experiences
45.	Southwest Airlines	Unique customer experiences
46.	Lenovo	New and differentiated business models
47.	JPMorgan Chase & Company	Innovative processes
48.	Fiat Automobiles	Breakthrough products
49.	Target Corporation	Unique customer experiences
50.	Royal Dutch Shell	Innovative processes

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Rankings are based on a combination of survey responses (80 percent weighting), three-year TSR (10 percent), three-year revenue growth (5 percent), and three-year margin growth (5 percent).

Exhibit 14. Respondents Named the Most Innovative Companies by Industry

Industry	Companies	Industry	Companies
Financial services	1. ING Group 2. Bank of America Corporation 3. HSBC Group 4. Citigroup 5. The Goldman Sachs Group	Automotive and motor vehicles	1. Toyota Motor Corporation 2. BMW Group 3. Honda Motor Company 4. Volkswagen 5. Ford Motor Company
Pharmaceuticals, biotechnology, and health care	1. Pfizer 2. Bayer 3. Genentech 4. GlaxoSmithKline 5. Merck & Company	Industrial goods and manufacturing	1. General Electric Company 2. Tata Group 3. 3M 4. Siemens Corporation 5. Boeing
Technology and telecommunications	1. Apple 2. Google 3. Vodafone Group 4. Microsoft Corporation 5. Nokia Corporation	Retail	1. Wal-Mart Stores 2. Target Corporation 3. Amazon.com 4. Reliance Industries 5. Apple
Entertainment and media	1. The Walt Disney Company 2. Sony Corporation 3. Apple 4. Time Warner 5. Google	Energy	1. BP 2. Reliance Industries 3. Royal Dutch Shell 4. ENI-Ente Nazionale Idrocarburi 5. General Electric Company
Consumer products	1. Apple 2. Procter & Gamble 3. Unilever 4. The Coca-Cola Company 5. Nestlé	Travel, tourism, and hospitality	1. Marriott International 2. Southwest Airlines 3. Hilton Hotels Corporation 4. Virgin Group 5. Starwood Hotels & Resorts Worldwide

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Rankings are based on responses to the question "Please name the company you believe is the most innovative in the world within the following industries"; ties were broken using three-year TSR performance.

Exhibit 15. Respondents Identified Up-and-Coming Innovators

Company	Description
Tesla Motors	◇ Maker of the Tesla Roadster, a high-performance electric sports car
IDEO	◇ Specialists that provide full-service consulting for product innovation and design
Alibaba.com	◇ A leading business-to-business marketplace and the largest e-commerce company in China
Better Place	◇ Venture-backed company that aims to reduce global dependency on oil
Dyson Group	◇ Maker of innovative vacuum cleaners (such as the Dyson Ball)
Grameen Bank	◇ Microfinance organization started in Bangladesh
Mozilla	◇ Creator of the Firefox Web browser
Mint Software	◇ Provider of online personal-finance tools
iRobot Corporation	◇ Maker of home-cleaning, industrial, and military robots
Hulu	◇ Producer of ad-supported streaming TV shows and movies, including some in high definition

Source: BCG 2009 Senior Executive Innovation Survey.
Note: This is a sampling of responses to the question "Please name three companies that you think are among the most innovative in the world but that most respondents to this survey have not heard of or whose innovations would not be widely known." All companies on this list had less than $1 billion in revenue in 2007.

Leading out of the Downturn

Seven Aggressive Innovation Strategies

The current economic woes call to mind the old joke about two campers who see a bear approaching their campsite. As one camper starts to lace up his sneakers, the other one says, "What are you doing? Sneakers won't help you outrun a bear!" To which the first camper retorts, "I don't have to outrun the bear—I just have to outrun you!"

No company can hope to outrun this bear market and emerge unharmed in the short term. But companies *can* take steps that will vastly improve their standing versus competitors, and they can position themselves optimally for an eventual economic rebound. Innovation can and should play a key part in that effort.

Below are seven innovation strategies that companies should consider implementing now, even though things continue to look bleak or at least very uncertain. Ideally, companies seeking to employ these strategies will start from a relatively strong financial position. But even those that do not can still leverage some of these strategies by freeing up cash through cost-cutting moves and reprioritization.

Stay aggressively invested in innovation. For companies not fighting for immediate survival, now is the time, first and foremost, to sustain or even increase their commitment to innovation—especially since their competitors may be unable or unwilling to do so. This obviously requires a superior cash position, strength in other areas of the business, and courage and leadership.

Acquire intellectual property on the cheap. As small companies' traditional funding sources dry up, large, liquid companies have a unique opportunity to acquire intellectual property at fire-sale prices. One cash-rich manufacturer, for example, recently had its eye on a small start-up that possessed new technology that could create a valuable market adjacent to the manufacturer's business. Desperate for cash, the smaller company accepted terms that would have been unthinkable in a stronger economy, selling the manufacturer a one-third ownership stake and a valuable first right of refusal for any future sale of the company or its intellectual property.

Alter your business model in strategic, game-changing ways. The perfect time to create a new business model is during a financial downturn, when it's harder for competitors to see, understand, copy, or adequately respond to changes. Innovative approaches to rethinking not only which activities a company should engage in, but also how it should do so and who should take these initiatives on, are particularly likely to pay off during downturns, when creative moves are difficult to follow by the less courageous (or flexible). Which industries will be transformed during this recession by bold companies?

Go bargain hunting. The plunging stock market may offer a great opportunity to buy innovative companies—and their people, patents, products, and competitive position—at steep discounts. Pharmaceutical companies are already aggressively seizing the moment: according to *BusinessWeek,* drug companies had announced $142 billion in deals by November 2008, up 18 percent from all of 2007, and still have over $110 billion in cash on their balance sheets. And the buying spree has continued in the early months of 2009, with several deals already announced, some of them driven by the desire to acquire innovative products and promising innovation pipelines. M&A activity will likely continue to increase as the downturn drags on, with assets continuing to be available at significant discounts. The optimal candidate for leveraging this situation would be a company in an industry where values are depressed but development pipelines are rich. (Good examples are pharmaceutical companies, technology companies, and higher-end technology-intensive industrial companies.)

Raid your competitors' talent pools. Exceptional people are always a scarce resource. According to a leading executive-search company, while it still takes a compelling offer to lure top talent, the bar is much lower now than it was a year ago. As R&D budgets are cut and as funding tightens and job insecurity rises, a stable company with deep financial resources will find its drawing power disproportionately enhanced—and it should leverage that advantage aggressively.

Stage a network invasion. The downturn presents an opportunity to capture key partnerships, collaborators, and customer networks from weakened competitors. This strategy is viable in industries characterized either by exclusive relationships or by strong innate network effects that create barriers to entry. Companies should look for vulnerable players and identify a point of leverage to force out the incumbent and stake a claim on the network. This strategy has been successfully executed in the past by telecommunications suppliers, among others.

Use innovation to attack competitors' profit strongholds. A company we'll call Wolf was a large, diversified organization with strong positions in all sectors in which it competed. Another company, which we'll call Sheep, was smaller, and its business was driven by a dominant position in a single sector. When a tough economy put Sheep under financial pressure, Wolf decided to attack Sheep's stronghold. Wolf used its strong innovation skills and excess production capacity to create a product line that competed directly with Sheep's 20 most profitable SKUs. Wolf's product line offered much lower prices and, in some cases, better performance. Unable to profitably compete, Sheep was put up for sale—and bought by Wolf at a bargain price.

In our experience, while the vast majority of companies batten down the hatches in times of crisis, leading companies take a more sophisticated and proactive approach. Yes, they pull defensive levers that improve short-term performance, but they also aggressively leverage the strategies described above to fundamentally change their long-term competitive position. It's ultimately a question of vision. Companies that win with innovation see the downturn as a chance to re-create their industry—on their own terms.

Survey Methodology

In November 2008, BCG sent this year's survey electronically to recipients of previous BCG innovation surveys whose e-mail addresses were known. We also sent it to BCG alumni who work in an innovation-related role in their current company and to senior management members of the *BusinessWeek* Market Advisory Board, an online reader panel. Participation was voluntary and anonymous. The survey closed in January 2009.

In total, 2,701 executives responded, representing all major markets and industries. The responses broke down as follows:

Region

North America	1,015
Europe	905
Asia-Pacific	604
Latin America	164
Other	10
No response	3
Total	**2,701**

Industry

Technology and telecommunications	527
Industrial goods and manufacturing	365
Financial services	352
Pharmaceuticals, biotechnology, and health care	208
Consumer products	204
Entertainment and media	136
Retail	91
Energy	82
Travel, tourism, and hospitality	67
Automotive and motor vehicles	63
Other	548
No response	58
Total	**2,701**

Position

C level	
Chief executive officer or president	225
Chief information officer or chief technology officer	123
Chief operating officer or managing director	99
Chief financial officer, controller, or treasurer	53
Chairperson	39
Board member	24
Other C-level executive	46
Subtotal	**609**
Other levels	
Department manager or supervisor	426
Director or group or division director	311
Professional	298
Vice president	160
General manager	132
Administrative or clerical staff	130
Technical staff	120
Owner or partner	109
Consultant	105
Sales representative	47
Government or public official	45
Senior or executive vice president	14
Other positions	149
Subtotal	**2,046**
No response	46
Total	**2,701**

Appendix

Key Survey Findings by Industry

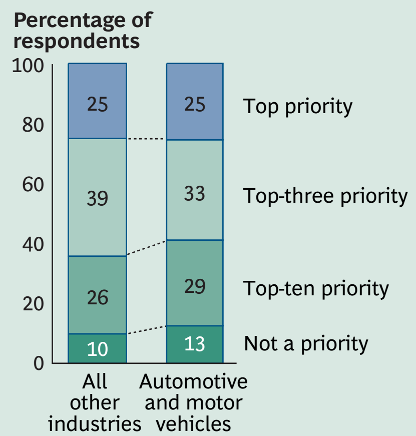
As a new feature in this year's report, we present key survey findings by industry. For each industry, we show the following:

- How innovation ranks as a strategic priority
- The planned change in innovation spending in 2009
- Satisfaction with the return on innovation spending
- The three most commonly used innovation metrics
- The three biggest hurdles to raising the return on innovation spending
- The percentage of companies that plan to increase their investment in RDEs and the countries or regions where they will concentrate those investments

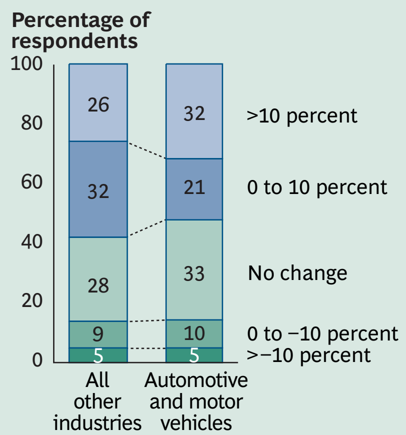
Responses to the questions regarding strategic priority, spending, satisfaction with innovation ROI, and RDE investments are compared with those for other industries.

Automotive and Motor Vehicles

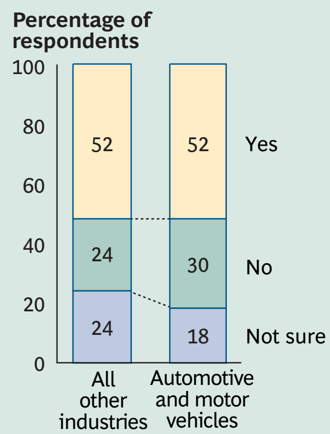
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Overall revenue growth
- Increased margins
- Percentage of sales from new offerings

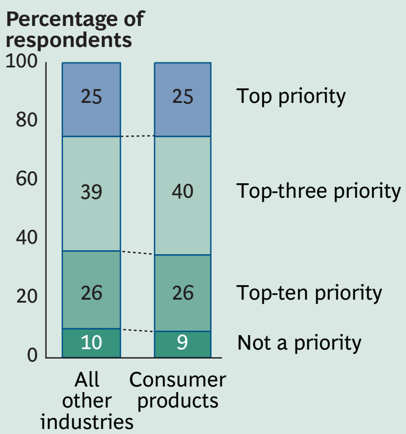
Biggest obstacles to raising innovation ROI
- Ineffective marketing and communications
- Risk-averse culture
- Insufficient support from leadership and management

Planned expansion into RDEs
- 51 percent (all other industries = 46 percent)
- China and Eastern Europe

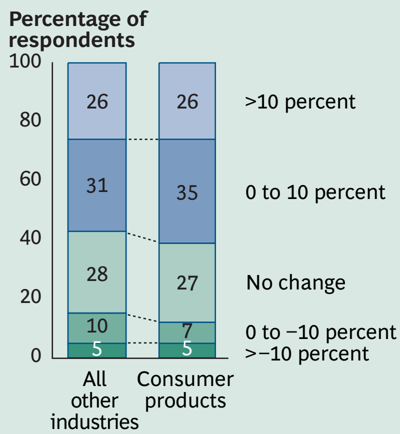
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Consumer Products

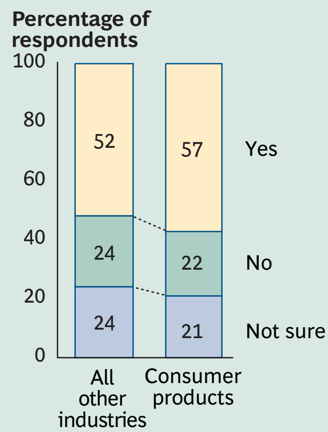
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- ◇ Customer satisfaction
- ◇ Overall revenue growth
- ◇ Percentage of sales from new offerings

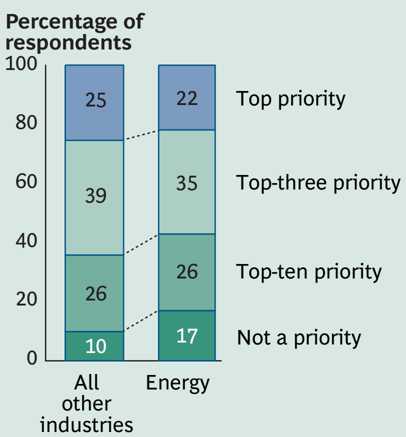
Biggest obstacles to raising innovation ROI
- ◇ Lengthy development times
- ◇ Risk-averse culture
- ◇ Lack of coordination within the company

Planned expansion into RDEs
- ◇ 46 percent (all other industries = 46 percent)
- ◇ China and Latin America

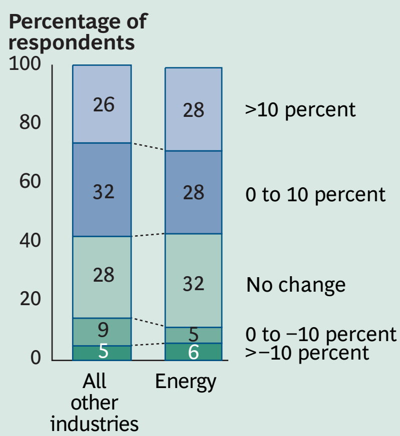
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Energy

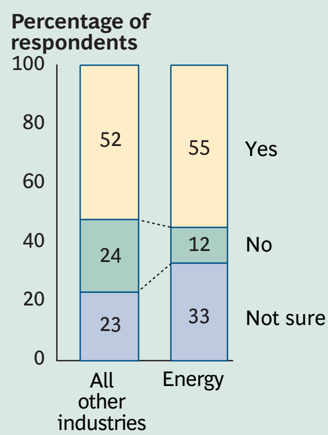
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- ◇ Customer satisfaction
- ◇ Overall revenue growth
- ◇ Projected versus actual performance

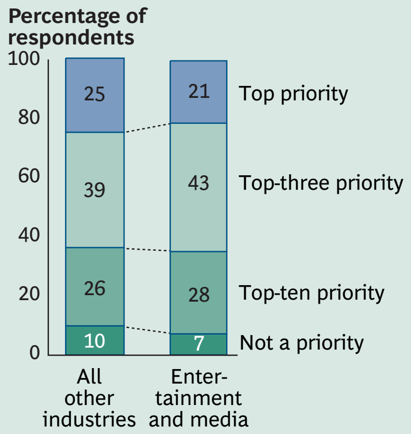
Biggest obstacles to raising innovation ROI
- ◇ Lengthy development times
- ◇ Risk-averse culture
- ◇ Ineffective marketing and communications

Planned expansion into RDEs
- ◇ 38 percent (all other industries = 46 percent)
- ◇ China and Eastern Europe

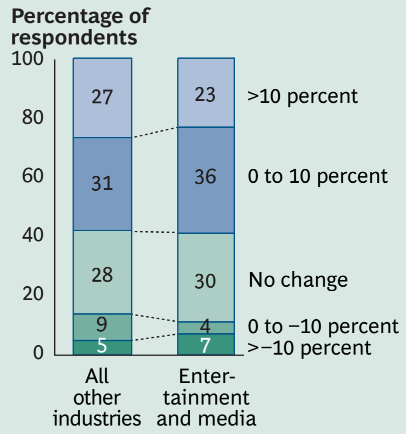
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Entertainment and Media

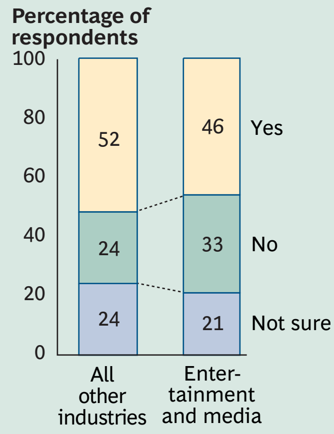
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

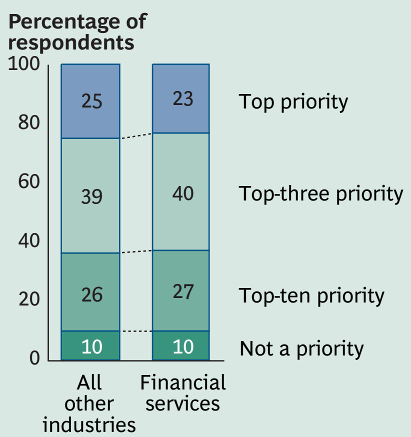
Biggest obstacles to raising innovation ROI
- Risk-averse culture
- Lengthy development times
- Lack of coordination within the company

Planned expansion into RDEs
- 43 percent (all other industries = 46 percent)
- Eastern Europe, China, and India

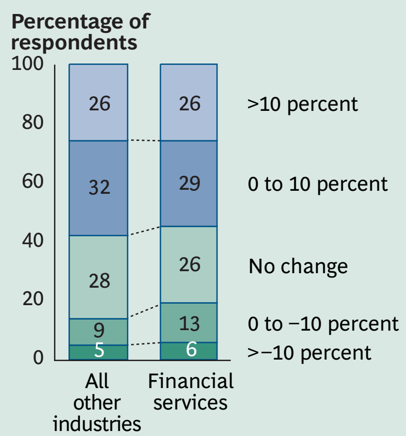
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Financial Services

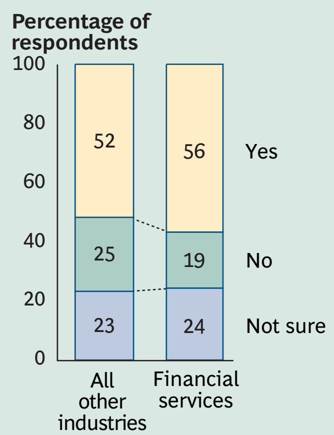
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

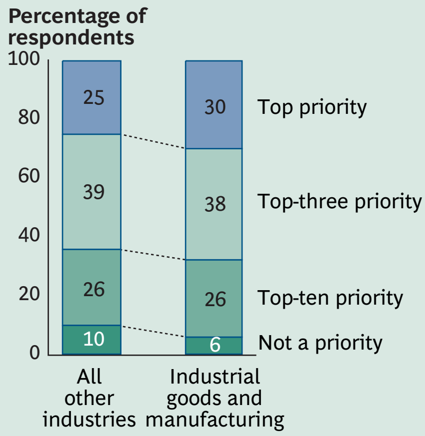
Biggest obstacles to raising innovation ROI
- Risk-averse culture
- Lack of coordination within the company
- Inability to adequately measure performance

Planned expansion into RDEs
- 42 percent (all other industries = 46 percent)
- Eastern Europe and China

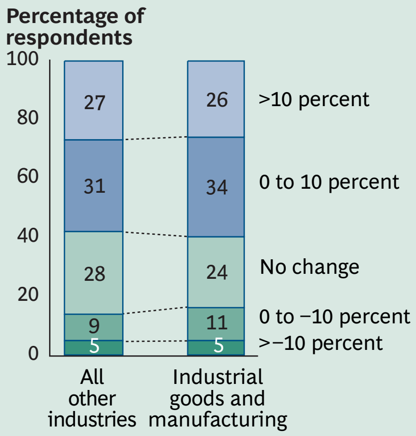
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Industrial Goods and Manufacturing

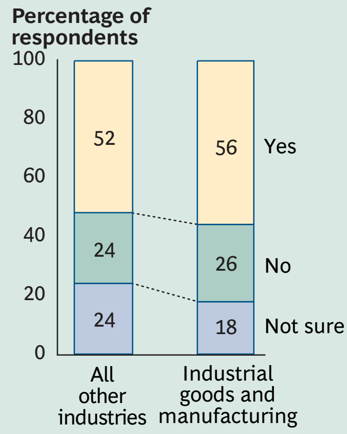
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used

- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

Biggest obstacles to raising innovation ROI

- Risk-averse culture
- Lengthy development times
- Lack of coordination within the company

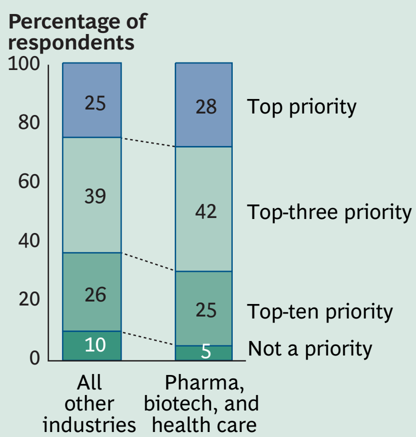
Planned expansion into RDEs

- 58 percent (all other industries = 46 percent)
- China and Eastern Europe

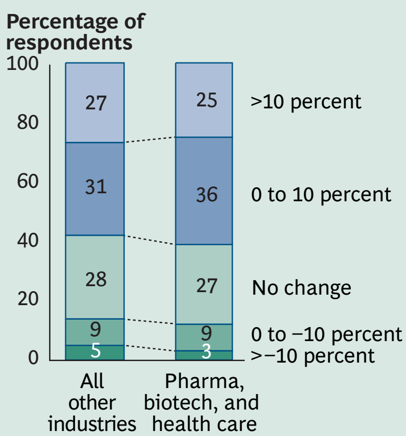
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Pharmaceuticals, Biotechnology, and Health Care

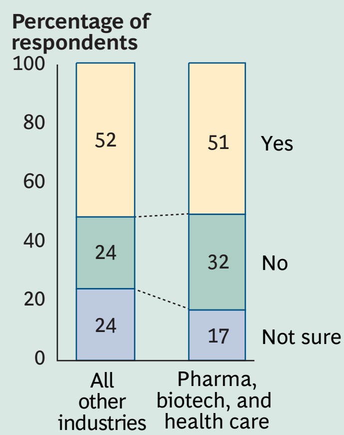
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used

- Overall revenue growth
- Customer satisfaction
- Projected versus actual performance

Biggest obstacles to raising innovation ROI

- Lengthy development times
- Risk-averse culture
- Lack of coordination within the company

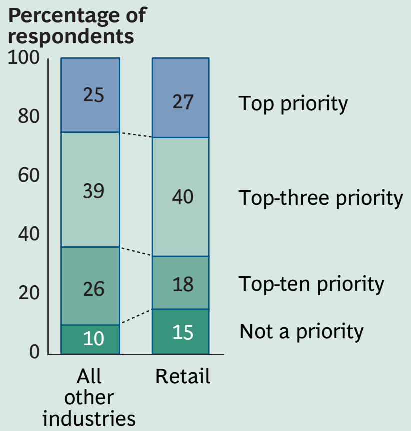
Planned expansion into RDEs

- 47 percent (all other industries = 46 percent)
- China, India, and Eastern Europe

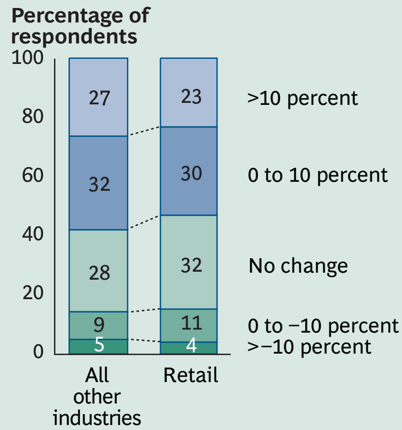
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Retail

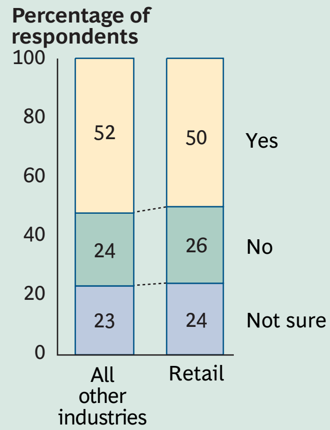
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

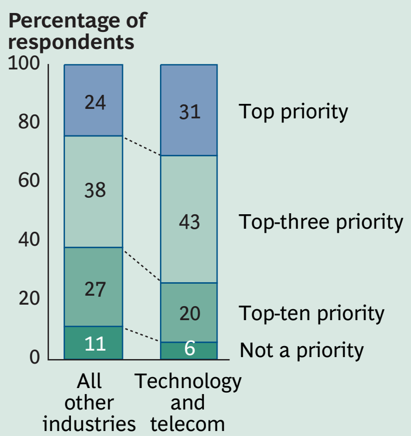
Biggest obstacles to raising innovation ROI
- Inability to adequately measure performance
- Risk-averse culture
- Insufficient support from leadership and management

Planned expansion into RDEs
- 40 percent (all other industries = 46 percent)
- Eastern Europe and China

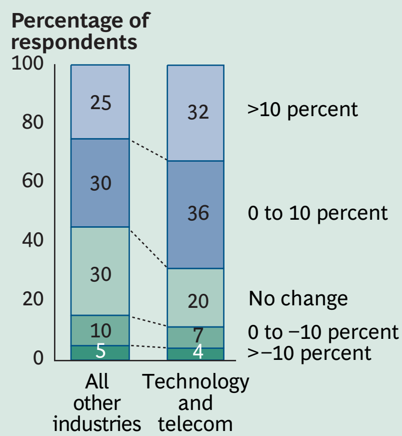
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Technology and Telecommunications

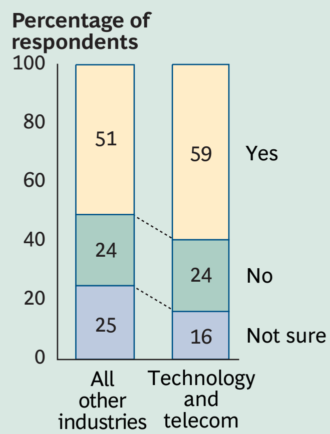
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

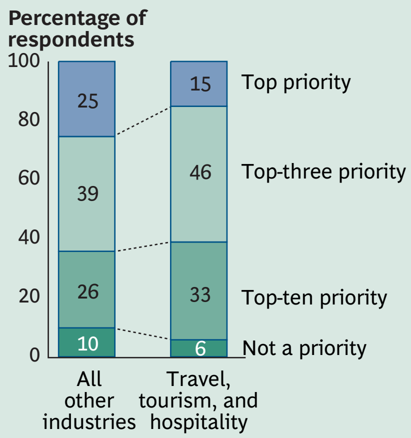
Biggest obstacles to raising innovation ROI
- Lengthy development times
- Risk-averse culture
- Difficulty selecting the right ideas to commercialize

Planned expansion into RDEs
- 60 percent (all other industries = 46 percent)
- India and China

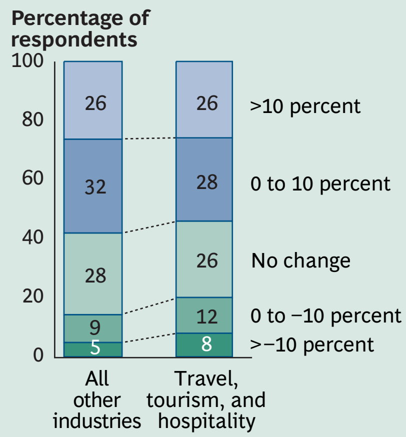
Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Travel, Tourism, and Hospitality

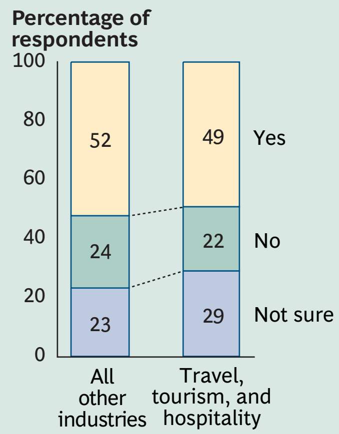
Innovation as a strategic priority



Planned change in innovation spending



Satisfaction with innovation ROI



Main innovation metrics used
- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

Biggest obstacles to raising innovation ROI
- Lengthy development times
- Lack of coordination within the company
- Insufficient support from leadership and management

Planned expansion into RDEs
- 43 percent (all other industries = 46 percent)
- China and India

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

For Further Reading

This survey is a part of BCG's extensive work and research on innovation and the innovation-to-cash process. A sample of related publications includes the following:

Measuring Innovation 2009: The Need for Action
A BCG Senior Management Survey, April 2009

Innovation 2008: Is the Tide Turning?
A BCG Senior Management Survey, August 2008

Measuring Innovation 2008: Squandered Opportunities
A BCG Senior Management Survey, August 2008

Tripling the Innovation Success Rate—with Less Effort
Opportunities for Action in Industrial Goods, February 2008

Payback: Reaping the Rewards of Innovation
James P. Andrew and Harold L. Sirkin (Boston: Harvard Business School Press, 2007)

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