

# Innovation as a Competitive Advantage

Innovation is high on the agenda for 2011 in virtually all industries. The accelerating pace of change is a major reason why many CEOs believe innovation is now as important to growing their businesses as expanding in existing markets.

Innovation — in the form of developing new products and services — has become as important to growth for CEOs as raising their share of existing markets. A survey by PwC of 1200 CEOs from around the world found that innovation, along with increasing their existing business, now outstrips all other means of potential expansion, including moving into new markets, mergers and acquisitions, and joint ventures and other alliances.

PwC's 14th annual Global CEO survey found that that innovation is high on the executive agenda in virtually every industry. In all, 78% of CEOs surveyed believe innovation will generate 'significant' new revenue and cost reduction opportunities over the next three years. But it is highest for those where technology is changing customer expectations.

"Innovation is a matter of survival for companies in sectors facing rapid changes in technology and high customer expectations," said John Sviokla, partner and Business Leader for Innovation and Strategy at PwC US. "Forward-looking companies strive for innovations that will give them competitive advantage and create growth. In today's fast-moving environment companies must constantly improve and re-invent their products, services and even brands.

"The next decade will be the 'most innovative time' since the industrial revolution due to the dynamics of over a billion new customers, global connectivity, and radical new technologies and science," Sviokla said. "In mature markets companies must innovate to differentiate themselves; in emerging markets, they need innovation to lessen their dependence on lower costs."

According to a new PwC study, *"Demystifying Innovation: take down the barriers to new growth,"* the drive for innovation must arise from the CEO and other executive leadership by creating a culture that is open to new ideas and systematic in its approach to their development. The innovation process generally has four phases:

**1. Discovery:** Identifying and sourcing ideas and problems that are the basis for future innovation. Sources may include employees as well as customers, suppliers, partners and other external organizations.

- 2. Incubation:** Refining, developing and testing good ideas to see if they are technically feasible and make business sense.
- 3. Acceleration:** Establishing pilot programs to test commercial feasibility.
- 4. Scale:** Integrating the innovation into the company; commercialization and mass marketing.

## MISCONCEPTIONS

The study also identifies seven misconceptions about the innovation process:

- **Innovation can be delegated.** Not so. The drive to innovate begins at the top. If the CEO doesn't protect and reward the process, it will fail.
- **Middle Management is the ally of innovation.** Managers are not natural champions of innovation. They too reject new ideas in favor of efficiency.
- **Innovative people work for the money.** Establishing a culture that embeds innovation in the organization will attract and retain creative talent.
- **Innovation is a lucky accident.** Successful innovation most often results from a disciplined process that sorts through many ideas.
- **The more open the innovation process, the less disciplined.** Advances in collaborative tools, like social networking, are accelerating open innovation.
- **Businesses know how much innovation they need.** Leaders must calculate their potential for inorganic growth to determine their need to innovate.
- **Innovation can't be measured.** Leadership needs to identify its ROI — Return on Innovation Investment.

In the end, the best talent will migrate to those firms that have inspiring goals, along with process, culture, incentives and investment that seeks out exciting innovation-driven growth opportunities. Those firms that attract that talent into a superior innovation culture will win in the global marketplace. ■

*The preceding information was excerpted from the new PwC study: "Demystifying innovation: Take down the barriers to new growth." For further information, please visit [www.pwc.com](http://www.pwc.com).*