Future of Work Enabler: Innovation

Fueled by social, mobile, analytics and cloud technologies, businesses are empowering teams within and outside the organization to develop new ways of solving old problems and channel innovative ideas into reality.

*This report is an installment in our multipart series that explores the shifts necessary for future-proofing your company.*
Executive Summary

Hackathons, crowdsourcing, co-creation, idea jams – the business world has grown enamored of not just innovation but “open innovation.” Whether they’re experimenting or launching a formal initiative, many organizations are turning to customers, partners, academic institutions, alliances, other businesses and the general public to help jump-start or fine-tune new ideas for honing a competitive edge.

And no wonder. In today’s digitized and technology-influenced world, the behavior of customers and employees is changing across the board – from how and where we bank, read, drive, work and shop, to how and where we travel, socialize, seek medical treatment and buy a cup of coffee. Meanwhile, the forces of globalization, virtualization and new technologies – namely, social, mobile, analytics and cloud, or the SMAC Stack™ – are both enabling and pushing businesses to become more proactive, transparent and fleet-footed.

With new competitors reinventing traditional marketplaces, organizations are obliged to not only keep up with but also anticipate the needs and desires of the market. This can come in many forms, including new products and service delivery or a rethinking of tried-and-true processes across the entire value chain, from marketing to product development to distribution. Innovation can be transformative or incremental, but in either case, it needs to be focused on any target that helps a business stand out in an increasingly commoditized marketplace. This can include wringing out inefficiencies, speeding response times, discovering new markets, developing a novel product or delivering a service in a newly relevant way.

To reach these levels of change, organizations are redefining how they pursue innovation. Using SMAC-powered techniques, such as collaborative platforms, videoconferencing, virtual meetings, instant messaging applications, expert communities and social media engagement, they are leveraging new ideas from employees at all levels and across departments, not just from the upper echelons of the hierarchy. They are also using these same technologies to innovate outside their own four
walls, with customers, partners, academic institutions and entrepreneurial businesses.

But when it comes to open innovation, one size does not fit all. To implement the innovation model that works best for them, organizations need to rethink their processes, reinvent their business models and rewire their technologies. Fueled in some cases by SMAC, businesses can empower workers and teams both within and outside the organization to develop new ways of solving old problems and channel innovative ideas into reality. By evaluating their objectives, capabilities and customer needs, businesses can determine where to start when it comes to applying innovations to the value chain, as well as identify the most relevant innovation model for their needs – internal, external or hybrid – thus ensuring their place in today’s competitive business world.

Innovation is one of the eight enablers companies need to consider when mapping their journey of reinvention for the new world of work, as described in our overview paper, “Making the Shift to the Next-Generation Enterprise” (see Figure 1). In this white paper, we will look at the many choices and considerations businesses must make when choosing an innovation model.

Mapping the Enablers to the 3 R’s

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<tr>
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<th>5</th>
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<td>Virtual Collaboration</td>
<td>Customer Empowerment</td>
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Figure 1
Innovation Starting Point

In a recent global survey of 311 executives, conducted by Forbes Insights and Cognizant Business Consulting, almost three-quarters of respondents said they are under more pressure to innovate. (See the full report, “Innovation Beyond the Four Walls;” registration is required.) This pressure is palpable in developments across industries – hotels offering mobile check-in, banks offering personalized deals to credit card customers through shopping apps and insurers offering pay-as-you-drive policies. In all cases, failing to come up with similar or completely new offerings would be damaging, whether to competitive positioning or brand reputation. All of these examples are like writing on the wall to any industry participant who wants to be around in the aftermath of wide consumer acceptance.

The survey also revealed increased use of hybrid innovation models that tap both internal and external resources for creating and implementing innovative ideas. Over the next two years, respondents said, they would open their innovation platforms to more external resources than internal ones (see Figure 2).

However, companies have so far been challenged to effectively leverage virtual tools for collaboration, and they struggle to plan where in the value chain to focus their innovation efforts. For some companies, the best entry point might be game-changing products and services, while for others it might be more effective operational processes or more profitable ways of creating market opportunities.

Beyond determining the value chain entry point, companies must also decide which innovation model is best suited to their situation – internal, external or hybrid – and then apply the most appropriate technologies. For example, some companies take a hybrid approach to innovation when developing new products or services, using social media to obtain customer feedback. Others might start with an internal approach for the initial ideation stage, using virtual idea management platforms to encourage brainstorming, steer discussions and prioritize ideas. These same platforms can be extended to external stakeholders, as long as controls and governance are in place to structure processes and protect intellectual property.

Opening Up for Innovation

Q: Does your company use any of the following tactics to gather information and ideas for innovation?

Base: 311 respondents

Figure 2
Points of Entry in the Value Chain

Determining which element within the value chain to target for innovation requires an evaluation along several dimensions, including availability of talent, risk/benefit, degree of change required and the current corporate culture. Let’s take a look at the most common value chain entry points for innovation.

- **Customer service:** How do I provide innovative customer service in the current environment of customized needs?

  Because of its focus on customers, customer service innovation tends to involve an externally focused innovation model. An example is mining social media for customer data and then using advanced analytics to assess consumer sentiment and gain feedback on how they feel about the company and the services provided. Some companies create this capability in-house, while others rely on third-party providers.

  Another approach is to involve customers, business partners and consultants directly in experimental versions of new services the business is considering launching. Hyatt Hotels, for instance, has designated eight “lab hotels” throughout the world as places where it can test out and gain feedback on new concepts, such as mobile check-in. The company also holds idea-generation sessions with business colleagues, hotel guests and outside experts, which has helped its business and IT teams generate more than 1,000 ideas for delivering new guest experiences.

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- **Marketing/sales:** What is the best model for bringing new products and services to existing and new markets?

  Marketing and sales is another business function that is likely to engage with external partners to define new target markets and means of communication. For example, companies might turn to social media to generate feedback on a new product or service and then incorporate that knowledge into their marketing and sales strategies.

  An example is Starbucks, which engages with its customers via social media, resulting not only in viral marketing but also in new ideas for product and service offerings. For example, through its My Starbucks Idea Web site, the company has generated tens of thousands of customer-submitted ideas, over 200 of which have become formal offerings. The site includes many opportunities for customer engagement, such as a leader board and the opportunity to vote and comment on ideas. It also apprises customers of which ideas have become reality.

- **Production/supply chain:** What is the best model for improving the delivery of products and services to customers across markets?

  Supply chain innovations tend to focus on cost savings, reaching new locations, just-in-time delivery and customizing to customer needs. Generally speaking, businesses are slowly becoming more willing to experiment with disaggregating their supply chains to innovate more closely with partners and customers.
An example is W. W. Grainger, which has inserted itself directly into customer purchasing processes through a mobile app. The app enables customers to view real-time inventory levels, manage their purchasing workflows, receive notification of shipping status and automate reorders. Grainger’s CIO says this innovation saves customers time and money and ensures Grainger’s offering is accessible in real-time and closest to the point of need.

- **Product development**: How do I maintain a pipeline of innovative products and services that meet fast-changing, geographically diverse and increasingly digitally oriented market needs?

With quickly mutating customer behaviors – heavily influenced by consumer technologies – many companies are finding they must reach beyond the four walls to gain the agility and insights needed for product development innovations. Companies such as CapitalOne and Johnson & Johnson, for instance, have set up innovation centers to accelerate the generation of new ideas through outward-facing collaboration with entrepreneurs, start-ups and experts. Such hubs are often embedded in innovation hotspots, with the goal of deepening relationships with and becoming an active part of the innovation community.

Johnson & Johnson, for example, is establishing innovation centers in major life sciences communities throughout the world – such as Boston, California, London and China – to identify early-stage innovations and speed their development to solve unmet patient needs. The centers will provide scientists, entrepreneurs and emerging companies with easy access to Johnson & Johnson science and technology experts to facilitate collaboration across its pharmaceutical, medical device and diagnostics and consumer companies. “Together with innovators and entrepreneurs, we can more rapidly deliver value and make a difference in the health and lives of people worldwide,” says Paul Stoffels, MD, Worldwide Chairman, Pharmaceuticals, Johnson & Johnson.

Meanwhile, CapitalOne has established digital labs in Arlington, Va., San Francisco and New York, with the intent of reimagining how its 60 million-plus customers interact with their money. The labs invite entrepreneurs, start-ups and partners to collaborate, with the mission of creating “new and awesomely creative experiences.”

**Choices and Considerations**

When selecting the entry point, the innovation model and the best technologies to employ, there are many considerations that need to be evaluated.

- **Strategy alignment**: The chosen innovation approach needs to align with the business’s overall strategy. For instance, if you want to be a “first mover” that leads the market with innovative products and services, you would likely choose a hybrid innovation model that is rich in external interactions, such as focus groups. Johnson & Johnson’s innovation centers are a good example, as they...
align with the company’s business strategy to increase its activities in early-stage science and technology.

On the other hand, a “fast follower” would choose an internally oriented innovation model that employs advanced analytics to quickly assess competitive offerings, determine what works and what doesn’t and then use those findings to replicate similar offerings at a lower price.

- **Risk management:** Innovation involves risk, and open innovation only compounds those risks. Areas of vulnerability include financial, corporate reputation, operational and intellectual property. For example, innovation efforts are not always measurable in terms of traditional metrics such as return on investment. And early ideas that are shared with customers are not always fulfilled, which can lead to disappointment and even embarrassment.

Companies need to assess the risks they are willing to take, based on the potential rewards, and take measures to mitigate risk. An increasingly popular way of minimizing the financial exposure of innovations is incorporating Agile practices into the ideation and development phases. Quick development cycles and frequent iterations allow companies to “fail fast” rather than over-investing in products, services and processes that don’t meet expectations.

- **Choosing partners:** Determining who to work with is another key consideration when embarking on open innovation efforts. Companies are increasingly eager to partner with start-ups, entrepreneurs and associations/partnerships that are geared toward encouraging innovation. However, it is customers who are now recognized most highly for the crucial role they can play in the innovation process. In the Cognizant/Forbes Insights study, top performing companies were those whose innovation models combined internal company teams with customers. These organizations reported higher satisfaction levels with their innovation efforts (see Figure 3).

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**Innovating with Customers Equals Higher Satisfaction**

Respondents were asked how satisfied they were with their company’s performance in the following innovation areas.

![Figure 3: Innovating with Customers Equals Higher Satisfaction](image)

**Base:** 311 respondents  
**Source:** Cognizant Business Consulting/Forbes Insights, 2012  
**Figure 3**
• **Cultural change:** Moving toward a mindset of innovation can cause a cultural shake-up for traditionally minded companies. Concepts such as accepting and even encouraging failure, collaborating with external partners, valuing and harvesting ideas from all levels of the hierarchy – all of these practices require cultural change.

Companies take different approaches to jump-starting a culture of innovation. Some companies, for instance, host visits with start-up companies to open business leaders’ minds to new possibilities. Others stage company-wide innovation fairs to spur enthusiasm among employees, sometimes inviting vendors and partners to showcase their own innovations, as well. It is generally assumed that jumpstarting an innovative mindset must begin at the top, and it is true that top executives need to support and encourage innovation initiatives.

• **New processes:** Encouraging, collecting and vetting innovative ideas, whether internally, externally or both, can become time-consuming and chaotic. This is why many companies are turning to collaboration platforms that manage these processes. Social media-inspired platforms can enable people to submit ideas, comment on others’ submissions and vote on the best ones, enabling the most viable ideas to bubble to the top. Such systems can also enable companies to focus idea submissions around a particular business problem, a best practice sometimes referred to as “managed innovation.” An example of this is Cognizant’s idea-management system, which enables geographically dispersed workers to share, rate and apply innovation ideas to help clients meet their business objectives.

• **Organizational structure:** Innovation can “sit” in a range of places within the organization. For instance, it can be centralized, virtual or colocated. The decision of where in the organization to position innovation efforts is based on several factors, such as the structure of the company itself, the business function most heavily involved with the targets of innovation and even the industry. For instance, in the Cognizant/Forbes Insight report, manufacturing companies were much more likely vs. other industries to have

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### Tool Choice Depends on Innovation Model

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<th>External Model</th>
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<td>Brainstorming in virtual town hall</td>
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<td>Expert communities</td>
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*Base: 311 respondents
Figure 4*
Recommended Tools and Strategies

<table>
<thead>
<tr>
<th>Strategic Imperative</th>
<th>Proposed Action and Technology Approach</th>
</tr>
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</table>
| Improve the quality of the new product/services pipeline | • Create cross-functional, cross-entity teams.  
• Utilize collaboration platforms that are user-friendly for internal and external resources.                                                                                                                                           |
| Enhance product portfolio performance and profitability   | • Utilize technology tools that support social media monitoring.  
• Establish standardized processes for responding to customer concerns.  
• Measure individual product performance against product portfolio.                                                                                                                                                                  |
| Lower product development costs                          | • Implement social media campaigns that enlist the customer as an advocate in product/service launch.  
• Include external resources in the product/service development process.                                                                                                                                                              |
| Grow market share/enter new markets                      | • Investigate opportunity for innovation partnerships with cross-industry or cross-region organizations.  
• Establish a set of analytics/tools that help internal resources identify potential partners, examine patents.  
• “Localize” by using social media and collaboration platforms to interact with individuals living in new geographies.                                                                                                               |

Figure 5

...the CEO primarily responsible for fostering innovation (53% of respondents), while healthcare was much more likely to involve multiple executives (44% of respondents).

- **Technology considerations**: To extend innovation efforts outside the corporate boundaries, companies need to begin using social, mobile and collaborative technologies, if they are not already. In fact, the company’s choice of technology is one of the biggest success factors in innovation endeavors. According to the Cognizant/Forbes Insights survey, respondents differed in their use of virtual innovation tools, depending on whether they were using an internal or external innovation model (see Figure 4, previous page).

Clearly, one size does not fit all; that is, some companies will see great success in turning to social media for crowdsourcing ideas, while others will be better off applying advanced analytics to new algorithms that reveal new customer insights. The choice of technology must go hand-in-hand with the value chain function and the strategic imperatives targeted by the innovation effort (see Figure 5).

**Harnessing Innovation Thinking**

Today’s business world pivots around applied innovation. Without bold levels of change, organizations will not be able to thrive in the digital economy. It is time to embrace new models of innovation and adapt to the new enterprise IT model, which is based on the SMAC Stack. As the adoption and proliferation of virtual tools and social technologies expand, businesses can begin to integrate customers, partners and outside influencers into the traditional organizational structure.

In order to do this well, organizations need to assess their goals and strategies, understand the gaps in their capabilities to meet or exceed their goals, target areas to innovate and identify the best model to begin and sustain innovation.
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Footnotes


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