



"Cloud Innovation:" Silver Lining for the Consumer Goods Industry

Executive Summary

Amid increasing global competition, more sophisticated shoppers and heightened price pressure, consumer goods (CG) organizations must tap every source of innovation available to them, including employees, suppliers, customers and even outsiders with no link to the organization. The challenge is creating a structured approach to correctly prioritize and execute all potential innovation initiatives.

Even as CG organizations embrace "open innovation" that encourages ideas from outside the organization, they must continue to generate innovation from traditional sources, such as employees and R&D. "Cloud innovation," like the "cloud" approach to IT services, helps accomplish this, as it provides a portfolio approach to both innovation requirements and the sources of innovation, matching diverse internal and external resources dynamically to each specific business requirement (see Figure 1).

Done right, cloud innovation can help CG manufacturers regain pricing power that has been lost to retailers, increase barriers to entry for competitors, improve visibility into customer needs and help ensure that innovations can be cost-effectively produced, distributed and sold.

The Need for Innovation

Innovation is a cost of entry to the CG market, in which power has shifted from manufacturers, to retailers and consumers. However, many new CG products fail, costing the industry billions of dollars a year. During the recession, a high percentage of innovations were simply brand extensions, rather than broader innovation that drove growth and margins. And in the last year, most new product launches in the CG foods area failed to make a significant dent in the market.

Without innovation, CG organizations risk losing sales. This makes it harder for them to gain shelf space (and reduce pressure for price cuts) from the large retail chains that control access to the market. Increasing costs for promotion, placement and shelf space further depresses margins, increasing the need for innovation to maintain profitability. Innovation results in a more enjoyable place to work and creates a "halo effect" that drives sales of other products. Finally, innovation that aids "green" or other causes increases pricing power by making consumers feel good about their purchase.

The Evolution of Innovation

CG organizations have innovated as long as there have been mass-produced consumer

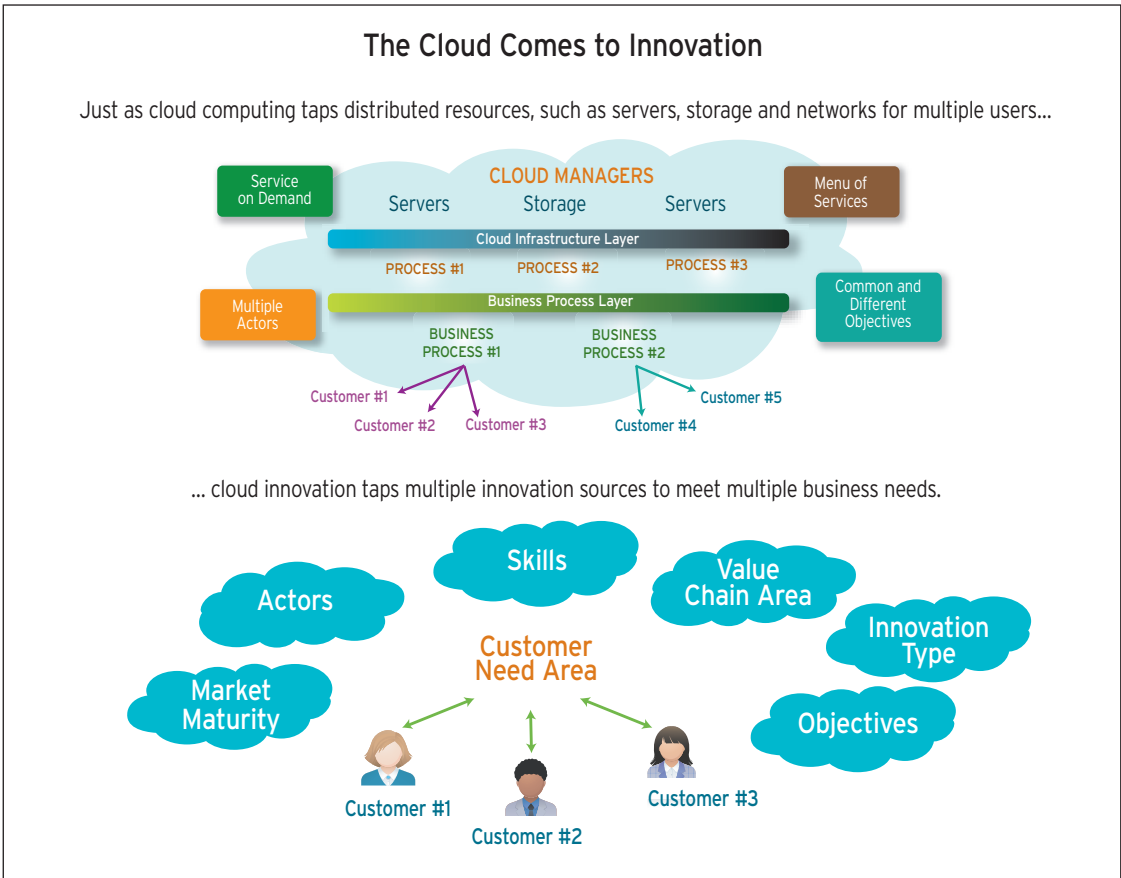


Figure 1

goods. In the 1960s, they moved more aggressively into process innovation, especially in manufacturing (see Figure 2). In the 1970s, innovation began to spread to users (with more advanced customer research), as well as to new, more advanced techniques for measuring the effectiveness of advertising. Walmart and other large retailers drove significant supply chain innovation starting in the 1980s. New business models such as direct-to customer – as well as significant innovations in distribution and marketing from vendors and distributors -- emerged in the 1990s. In this decade, open innovation has become the order of the day. The next step toward more comprehensive and effective innovation is the cloud.

The types of CG innovation have also changed. Early on, the focus was on breakthrough innovations in products. As manufacturers focused on process, they sought more incremental innovations. When they innovated in far-ranging areas, such as the user experience and in business models, they sought more fundamental innovations.

The actors involved have also changed. At first, innovation was largely the responsibility of the R&D organization. Over time, other employees within the CG organization played a larger role, as well as business partners. Using the World Wide Web, the public is now being tapped as a source of innovation.

Cloud Innovation Defined

Cloud innovation unites many innovation elements, including customer needs, various actors and different types of innovation and business objectives. It taps a diverse pool of people, processes and technology inside and outside the organization to meet needs across internal and external value chains. Cloud innovation also encompasses process, channels, brand and business models, all of which are “structural” areas where innovation can produce far-reaching and significant results (see Figure 3).

Cloud innovation unites many innovation elements, including customer needs, various actors and different types of innovation and business objectives.

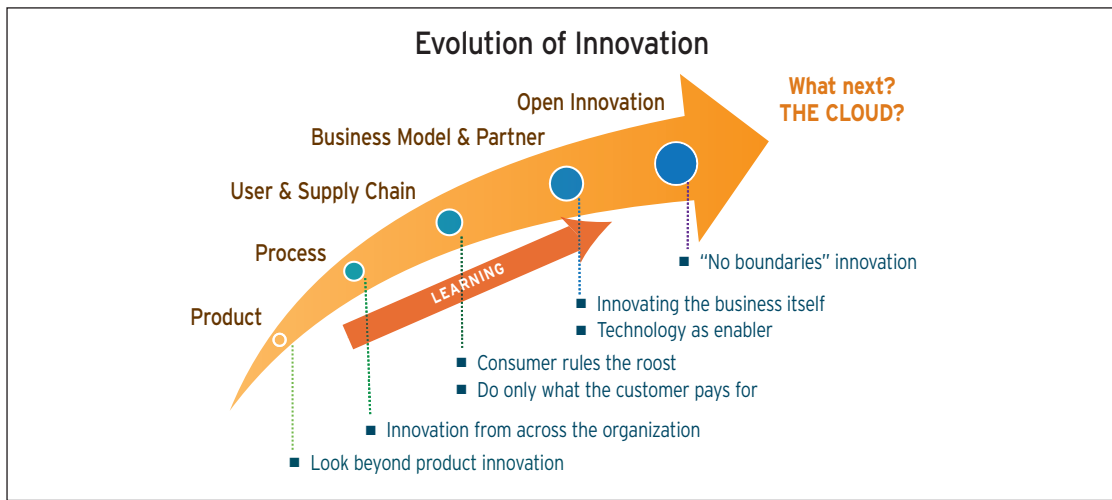


Figure 2

For example, innovation aimed at reducing costs would be considered a “sustaining” innovation, as it is aimed at the input portion of the value chain, requiring innovation from the vendor and involvement from finance, purchasing, marketing and R&D. Developing a radical new product, on the other hand, would require more breakthrough innovation, focusing on the output (the product) and requiring involvement from users, vendors, marketing, R&D and, possibly, external innovators.

For an organization to use cloud innovation, it needs to define the combinations of elements that it plans to leverage. Each combination of elements requires a different strategy, process, inputs and outputs. (See “Enablers of Cloud Innovation: The Four Ps”.)

Cloud Innovation: A Portfolio Approach

Cloud innovation is best leveraged by investing in a portfolio of slower growth but more assured innovations, as well as higher potential but riskier projects. This not only helps prioritize efforts, but it also aids in managing risk while maximizing benefits. The equivalent is a stock portfolio of “large caps” (the largest firms with the highest capitalizations), “mid-caps,” “small caps” and “penny stocks.” The larger the company, the safer the investment, but with higher safety comes a lower likelihood of spectacular returns.

A large-cap investment might be innovation of the product (changing the ingredients in an existing shampoo), process (tweaking how

Elements of Cloud Innovation for a Consumer Goods Company

Customer needs	Health and wellness, convenience, beauty, excitement, sustainability.
Actors in innovation	Traditional R&D staff, other employees, suppliers, customers or “non-involved” outsiders, such as those entering a product-naming contest.
Skills required	Raw material and packaging, base chemicals, consumer understanding and knowledge of markets or supply chain.
Types of innovation	Radical, breakthrough, enhanced, sustaining.
Value chain areas	Input, process and output.
Objectives	Higher profit, revenue growth, increasing customer delight, social recognition or reducing the cost of innovation.
Market maturity	Growing, mature or declining.

Figure 3

marketing dollars are distributed) or business model (using the Web to distribute coupons.) The potential for success is relatively high, since the changes to production and other processes are fairly minor. The likelihood of success is fairly high, since the product has a loyal customer base, but the chance of dramatic sales or margin growth is relatively low.

A mid-cap investment might be innovation of the product (a new shampoo for a new market segment), process (outsourcing production) or business model (marketing the product through home sales.) The changes required in marketing, development, production and distribution might be somewhat higher, since the innovation is more far-reaching. Chances for success are somewhat lower than for the large-cap investment, but the growth potential is somewhat greater.

A still riskier investment would be a small-cap innovation. A product innovation might be a

new product in a new category, such as a shampoo to prevent hair loss. A process innovation might outsource all the design, testing and production. A business model innovation might be buying a stake in an outside supplier rather than marketing the shampoo directly. The risks are greater, as the market is less familiar and the degree of innovation is greater, but the potential upside is also larger.

The penny stock would be the least expensive, highest-risk but potentially highest-return investment. Here, a product innovation might be entering a radical new category, such as a shampoo that lets a customer grow different color hair. As with a penny stock, the chances for success least assured, but the possible upside is the greatest.

The cloud approach to innovation involves building a similar portfolio of varied innovation initiatives ranging from minor changes to business processes to investing in radical ideas that have the potential to change the entire industry.

Summary

In a world of thin margins, scarce shelf space and fickle consumers, CG organizations need innovation more than ever. However, factors such as lack of consumer insight and stove-piped processes have made it difficult for these organizations to innovate consistently and successfully. To tap the greatest range of insights and ideas, CG companies should consider an “innovation cloud” approach that combines traditional R&D, plus innovation from employees, users and “uninvolved” outsiders, and that incorporates innovation in business models and processes. Much like a compute cloud, an innovation cloud dynamically and flexibly matches resources to needs to meet ever-changing business requirements.

Cloud innovation also encompasses process, channels, brand and business models, all of which are “structural” areas where innovation can produce far-reaching and significant results.

To tap the greatest range of insights and ideas, CG companies should consider an “innovation cloud” approach that combines traditional R&D, plus innovation from employees, users and “uninvolved” outsiders, and that incorporates innovation in business models and processes.

Enablers of Cloud Innovation: The Four “Ps”

To achieve cloud innovation, a CG organization must focus on four areas.

Prescribe means identifying various elements of cloud innovation the organizational needs, a strategy for each element, the cloud as a whole, and an implementation approach.

People means finding, inside or outside of the organization, people with an entrepreneurial drive and passion to push for their ideas and persevere despite obstacles.

Platform includes cloud sourcing and Web 2.0 tools that allow ideas to be shared and implemented through links with ERP and other corporate systems.

Processes are required to screen, qualify, analyze and present ideas in high volume and measure and track innovation performance.

About the Authors

A. K. Parameswaran (Param) is Assistant Vice President within Cognizant's Strategic Business Consulting Practice. He has more than 20 years experience in multiple segments of the consumer goods industry, including food and personal products. Param has held leadership positions in some of the largest global CG majors, including Head of CAME (Central Asia Middle East) innovation center at Unilever. Just prior to joining Cognizant, Param was with PRTM, a leading management consulting company where he worked with many of the top 10 consumer goods and life sciences organizations. He holds a Master's degree in chemical engineering from Johns Hopkins University, as well as an MBA from the University of Iowa and a Bachelor's of Technology degree from the Indian Institute of Technology. He can be reached at ak.parameswaran@cognizant.com.

Vishal Anand is a Director within Cognizant's Consumer Goods Practice. He has 12-plus years of experience delivering IT solutions to top CG organizations across the globe. Vishal has led the development of and implemented various tools and frameworks to drive innovation success for Cognizant's clients. He has an MBA from the Indian Institute of Management, Lucknow and a Bachelor's of Technology degree from Banaras Hindu University. Vishal can be reached at vishal.anand@cognizant.com.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting and business process outsourcing services. Cognizant's single-minded passion is to dedicate our global technology and innovation know-how, our industry expertise and worldwide resources to working together with clients to make their businesses stronger. With over 50 global delivery centers and approximately 88,700 employees as of June 30, 2010, we combine a unique global delivery model infused with a distinct culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in BusinessWeek's Hot Growth and Top 50 Performers listings.

Start Today

For more information on how to drive your business results with Cognizant, contact us at inquiry@cognizant.com or visit our website at www.cognizant.com.



Cognizant

Passion for building stronger businesses

World Headquarters

500 Frank W. Burr Blvd.
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277
Email: inquiry@cognizant.com

European Headquarters

Haymarket House
28-29 Haymarket
London SW1Y 4SP UK
Phone: +44 (0) 20 7321 4888
Fax: +44 (0) 20 7321 4890
Email: infouk@cognizant.com

India Operations Headquarters

#5/535, Old Mahabalipuram Road
Okkiyam Pettai, Thoraiipakkam
Chennai, 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060
Email: inquiryindia@cognizant.com