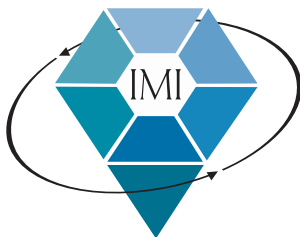


CEMENTING INNOVATION

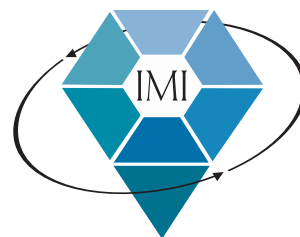
You Don't Have to be High-tech To Innovate —
Just High-Touch

By Hitendra Patel and Holger Koehler



INNOVATION MANAGEMENT, INC.
A Member of Monitor Group

INNOVATION MANAGEMENT, INC (IMI) is a member of Monitor Group. IMI's focus is on the creation and capture of significant and sustainable value through innovation and technology. Its goal is to help clients drive sustainable growth through innovation, build competitive advantage through technology, maximize return from research, development and engineering, and increase the success of venturing and commercialization.



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A Mexican immigrant living in Chicago, is trying to help his impoverished family back in Mexico to build a new home. But he wants to know that at least part of the money he sends home every month will be set aside for the house and not spent on something else. He wants to ensure that his money is buying the right materials for the job, in the right amounts — high-quality materials, not the shoddy supplies that so often plague construction projects in poor neighborhoods. And he wants to avoid the high currency-exchange commissions that are often levied on international money transfers.

So instead of wiring cash to his family, he walks each month to a small storefront in his neighborhood and hands \$350 to the clerk. The money goes into an account with a unique type of firm. For a nominal fee (\$1 per payment) this firm not only delivers cement and other building materials to the immigrant's family, but is helping them to design the four-bedroom house, manage the construction schedule, and finance the \$10,000 worth of cement, gravel, and bricks that will be needed to build it.

This business is not the creation of a government, bank or charity, but a cement company — a Mexican-based firm that, with visionary leadership (and some outside help), has begun to reimagine itself in bold new ways by unlocking its employees' creativity and channeling it into strategic, systematic and market-relevant initiatives. As a result, the company is creating new businesses, new business models, and most importantly, new value. In other words, it has embraced innovation — robust, all-embracing innovation that involves not just new products, but new services, channels, partners and customers. And by doing so, it has transformed itself into one of the most profitable, fastest growing, and dynamic companies in its industry and worldwide. Its ability to innovate

across the value chain has also enabled it to become a major engine for growth and innovation across the region.

Innovation can do that. In today's (and tomorrow's) hyper-competitive, fast globalizing business environment, innovation — the creation of new strategies, products and services, processes and/or business models — is the single most powerful tool for building long-term sustainable growth and competitive advantage. It's hardly news that innovative firms become industry leaders, achieve superior top- and bottom-line results, and command premiums in the marketplace — as Apple Computer, Intel, Dell, 3M, Amgen, and dozens more high-profile, innovation-fueled success stories can attest.

But an innovative *cement* company? Isn't innovation only for R&D-intensive, high-tech or consumer-products companies - firms that were built on innovation and seem to have it baked into their corporate DNA? What role could innovation possibly play in old-line commodity industries like utilities, mining, forestry, manufacturing...or construction?

A big one, it turns out. Contrary to popular belief, innovation does not belong exclusively to the business world's high-tech molecule moguls. Monitor's extensive experience working with "traditional" companies has taught us that any business in any industry can—and should—pursue and reap the benefits of innovation. Because by innovation, we mean something much broader and more profound than simply pioneering new products. Of course, innovation sometimes does revolve around breakthrough products and services. But it also encompasses new methods and materials, new channels and business models, new networks and partners, new organizational rules and structures — some or all of which can be profitably pursued by virtually any type of enterprise. In fact, the most successful innovators are constantly innovating across all of these dimensions.

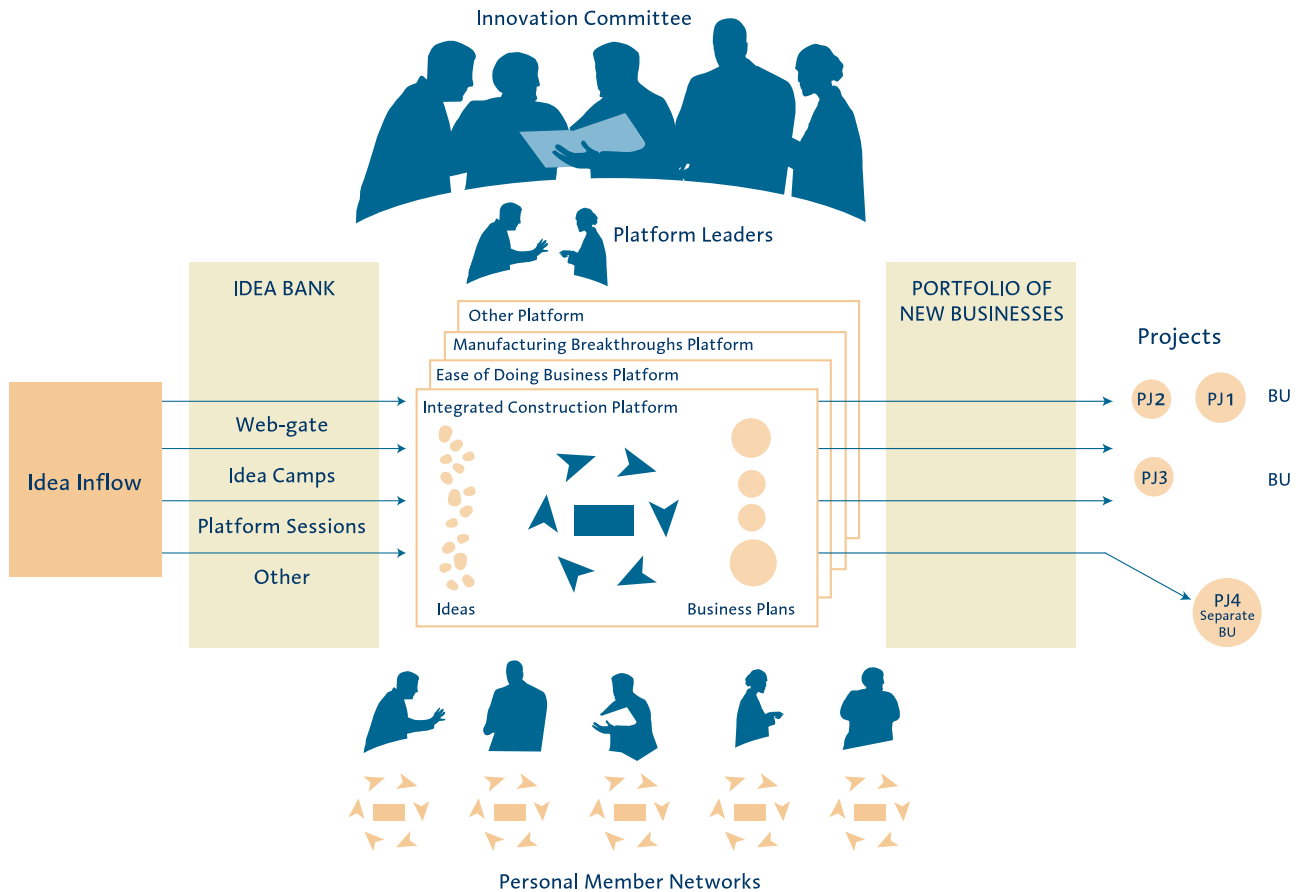
Unfortunately, many companies define innovation too narrowly and/or assume that it has no role in a commodity business. As a result, they overlook real opportunities and leave significant potential value untapped.

At one time, this was the case at the Mexican cement company. An old-line firm with roots dating back to 1906, it had over the twentieth century grown into one of the largest players in the cement industry, with a commanding market share in Mexico and a growing portfolio of international acquisitions. But as the millennium approached, the company's success was breeding a new dilemma: How could it continue to grow in its home market (which still accounted for half of its sales and 75 percent of its profits) when it was already so dominant?

Realizing that its longtime domestic strategy of modernization and efficiency would in the future inevitably produce diminishing returns, the company's management decided to adopt a bold and visionary new course. They determined that in order to sustain profitable growth in their core market of Mexico, they could no longer simply expand their share of that market: They had to grow the market itself. And in order to do that, they had to put an end to business as usual. They had to innovate.

But they also realized that doing so would not be easy. Management envisioned nothing less than a company-wide transformation, an undertaking for which they would need outside help. So they turned to IMI — a dedicated innovation group formerly part of Arthur D. Little, and now part of the Monitor Group—to conduct a cultural and innovation audit. Together, IMI and the company's executive team mounted an exhaustive study of the company's innovation prospects. That study revealed two major roadblocks to continued growth:

Figure 1. HIGH PERFORMANCE INNOVATION MODEL



It has also created a new transparent, high-performance organizational model around innovation (see figure 1). Led by a special innovation committee (composed of three vice presidents, three directors and an outside consultant), the company has implemented ongoing innovation training programs and events, as well as a portfolio of monetary and non-monetary rewards for innovation. And worker response has been strongly supportive: More than 3500 company employees have contributed some 6300 proposals to the company’s web-enabled “idea bank” — of which more than 400 have been implemented. Thousands of employees have volunteered for training in innovation methodologies and tools; Innovation Day, an annual event that celebrates the most innovative projects of the year, typically draws a thousand or more participants from throughout the company.

The overall scorecard: Four years after initiating its innovation revolution, the company has launched 9 innovation platforms, each with an associated pipeline of ideas and projects. (There are typically more than 100 high business-potential ideas in the pipeline at any given time.) The incremental profit impact of these platforms to date? An estimated \$40M — the equivalent of sales of over \$300M.

These numbers underscore innovation’s power, even in a commodity business or industry. After all, commodity businesses share many characteristics with their non-commodity counterparts. Through insights of their employees and partners, new, interesting ideas emerge. They have customers, and those customers have needs. Some of those needs are being met, but others await fulfilment. And those unmet needs are often

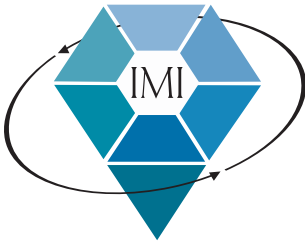
Innovation in Commodity Industries: Five Lessons

The experience of this company and many leading companies suggests that there is a real opportunity for innovation in commodity industries. These companies have found very actionable ways to make innovation happen without incurring huge costs and disrupting ongoing efforts to manage costs. Their success yields these lessons:

1. Believe it or not, innovation is alive and well in the commodity industries, because it does create value. Companies are partnering with competitors, suppliers and partners to accelerate the value created and captured from the next new process, product, or service.
2. Odds are, your competition has already identified innovation as a source of competitive advantage and is moving to act on it. As a result, innovation is no longer a “nice to have,” but essential for long-term viability in the marketplace.
3. Innovation leadership results from programmatic effort. There is no quick fix or silver bullet. Ultimately, analysis *and* creativity, process *and* passion, strategy *and* organization need to be addressed to sustain leadership.
4. Innovation is not a staff function driven by a chosen few, but rather the responsibility of every person in the organization, beginning with the CEO, and including touching your customer base.
5. Though many companies find it difficult, partnering plays a critical role in innovation. Why? Because opportunity is never confined to a company’s own in-house resources.

unacknowledged and unarticulated, even by the customers themselves. Which leaves significant opportunity for value-creating innovation. The leaders in all industries are those that have strategies, internal resources, organizations, processes and cultures that they bring together to foster innovation. High-touch is clearly as important as high-tech in tapping these resources and creating powerful pipelines of innovation.

So the answer to the question, *Can you have innovation in a commodity industry?* is an unequivocal, *Yes!* Just ask the Mexican immigrant. His family’s new house is now halfway finished. And the innovative program that helped him and thousands of other immigrants to realize their homebuilding dreams is generating nearly \$4 million in sales for the company. Not bad for a boring old cement company.



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Holger Koehler is a member of Innovation Management Inc., a Monitor Group Company, in Cambridge, USA. He has over 10 years of consulting experience leading growth strategy, new business-building, innovation and technology strategy related assignments with clients in the automotive, industrial, telecommunications, oil & gas, health care and financial services industries.

Of course, none of this would have been possible if the company had continued to think of itself as just a cement company. But behind the innovation platforms, platform teams, and the ideas and initiatives they spawned, was an overarching, radical rethinking of the firm's purpose and business model — a conceptual leap from a narrow focus on peddling products (“We sell bags of cement”) to a wider-angle vision of solving problems (“What do our customers want to do with cement, and how can we help them to do it?”)

To find relevant innovations, the company deployed new methods and tools aimed at generating insights into what customers need and want; why they buy cement and other construction products, and what they use them for; and how they finance these projects. One of these, called “Living with the Customer,” resulted in an innovative program in which employees were dispatched to spend two days with poor families (whom the company had determined constituted a large, mostly untapped market) to witness firsthand how they go about building houses — and how the company might help (and in the process, sell more cement). This tool created a high-touch experience with the company's customers.

Among the employees' discoveries: Many poor families join together to finance and build their homes via informal lotteries, or pools — a process that often results in long delays, wasted materials, and shoddy construction. This and other on-the-ground insights led the company to launch an “Integrated Solutions for Low-Income Housing” platform, which in turn, generated several creative home-financing initiatives. The initiative organizes low-income families into self-financing cells that facilitate and expedite the typical home-building process. The company not only provides them with the products they need, but also offers them technical assistance — including an architect who helps design their homes so that they can optimize space and reduce waste.

To date, the program has helped thousands of poor families to realize their dreams of home-ownership — and nearly doubled the company's revenues from the do-it-yourself construction market.

The flourishing of such initiatives mark a seismic — and healthy — shift in the way that the company approaches its business, its strategy, and its future. When IMI first began working with the firm, it was like countless other commodity businesses: too risk-averse to act decisively in the face of uncertainty or without senior support; unable to see beyond its traditional business model or imagine novel, breakthrough opportunities; unwilling to pursue any innovations that were not directly tied to cost-cutting or efficiency. It lacked both the entrepreneurial culture and the creativity-channeling platforms that are needed to stimulate a robust, ongoing flow of growth-enhancing innovations.

But management's vision and courage have enabled them to make a compelling case that a commodity business can indeed be an innovation leader. Today, the company is far more likely to act quickly and decisively to evaluate ideas and opportunities — and, when appropriate, to commercialize them. It has extended its business objectives well beyond the cement industry. It actively seeks partnerships to expand its creative and delivery abilities. And it is able to balance (and understand the complementary nature of) cost-reduction and innovation opportunities.

Fostering Innovation: Four Key Objectives

1. **Capture the innovation premium:** Pursue promising new growth avenues in a systematic and transparent way that engages the entire organization.
2. **Align actions with strategy:** Link innovation-related actions and performance to strategic objectives of the firm by implementing a balanced-scorecard management model.
3. **Put aces in their places:** Aim to retain, develop and hire entrepreneurial, “out of the box” thinkers by making innovation an explicit component of job descriptions and responsibilities.
4. **Accelerate cultural change:** Transform the company culture, starting at the top. Train top management to “walk the talk” on innovation and lead by example as well as exhortation.

- Corporate culture. Like many successful organizations, the company had become more hierarchical, bureaucratic, risk-averse, and focused on short-term profits as it grew larger. In such a “don’t rock the boat” atmosphere, creative people in the company found it increasingly difficult to get their ideas heard — or worse, felt actively discouraged from taking initiative and risks.
- A lack of structures and processes to identify, evaluate, prioritize and manage new opportunities. As a result, any innovative ideas that did emerge tended to fall between the cracks — or, at best, to become isolated, random initiatives rather than coordinated and focused programs that were part of a strategically aligned pipeline.

To address these issues, IMI and the company jointly developed a transformation program and established a team of company executives, key staff, external innovation experts, and consultants to implement it. The first challenge was to find new avenues for growth. The team began by building a series of growth *platforms* - cross-functional, thematic launching pads for new ideas, products, services, and businesses.

The Power of Platforms

IMI has utilized the platform concept to spur and systematize innovation at dozens of companies around the world and across industries. Platforms function like virtual business units, each one guided by a cross-functional team and centered around a particular strategic theme for innovation. For instance, the global coffeehouse chain Starbucks has created a platform around the theme of customer experience, one that has led to such disparate innovations as WiFi-hotspot services, in-store music downloads and stored-value payment cards.

Our experience shows that platforms help companies to look beyond their current offerings and imagine new products, services, strategies, and business models. They give companies new insights into how and where to innovate and, what kinds of new ideas will be driving future growth. They both drive innovation and focus it, so that new initiatives are always linked to capabilities and strategy, aimed at actionable market targets, and unified across functions, regions, and business units. They make innovation real and achievable, by targeting companies’ creative and analytical talents where they matter most.

These platforms revolved around a number of themes, including manufacturing breakthroughs, integrated construction solutions for affordable housing, promoting regional development, and making it easier for customers to do business with the firm. Once these platforms were established, the innovation committee selected a small team to manage each one. Each team spent several months coming up with three significant opportunities relating to its platform theme. Team-members represented many different rungs on the organizational ladder; in fact, it was the opportunity to share ideas directly with top executives (and in some cases, obtain an immediate go-ahead to proceed with implementation) that made team appointments so coveted by so many employees—as they continue to be today.

Indeed, it was one such employee, a mid-level manager serving on the “Ease of Doing Business” platform team, who came up with the idea for the program that allows émigrés to build homes back in Mexico on the installment plan, using the company’s very own cement. The existence of the platform (and his participation in the platform team) provided this manager with a forum in which to voice his proposal and have it heard by a senior executive. It ensured that the idea would be evaluated fairly and transparently, within the context of its alignment, with platform goals in particular, and overall business strategy in general. It allowed the scheme to be fast-tracked, sidestepping bureaucratic entanglement and racing from concept to implementation within a scant 18 months.

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