

# In Search of a Great Business Notion: Leading Innovations 2005

by Gregory J. Millman

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Of the 10 finalists in Booz Allen Hamilton's Leading Innovations Competition, four made it to the winner's circle.

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As competition gets tougher and markets more challenging, innovation in management practice has become an imperative for businesses around the world. The third annual *strategy+business*/Booz Allen Hamilton Leading Innovations Competition showcases the best new business concepts for confronting the shifting demands of our times. A Booz Allen panel selected the 10 most impressive new ideas to come out of the firm's global practice this year, and then we put the vote to our readers. Nearly 10,500 online voters cast their ballots at [www.leading-innovations.com](http://www.leading-innovations.com) to select the four winners.

This year's leading entries leave no doubt that cost-effective innovation and operating efficiency were very much on the minds of judges and voters. In fact, all four winning entries — "Virtual Scale," "Design to Value," "Getting the Most from Outsourcing," and "The Four Sources of Intelligent Innovation" — offered strategies for wringing value from an operating environ-

ment squeezed by price and margin pressure.

Top honors went to "Virtual Scale," a tactic for gaining economies of scale through alliances, without burdening the balance sheet. Traditionally, firms invest in organic growth or acquisitions to build scale, but there are several reasons that this is no longer the best approach. First, of course, it's capital intensive, and capital is a scarce resource. Second, most firms lack the market position necessary to achieve scale economies organically. Finally, the acquisition route is increasingly suspect, given the clear evidence that most M&A transactions either destroy shareholder value or fail to deliver promised synergies. "Virtual Scale" shows how companies can combine their assets and capabilities in strategic partnerships that allow them to "punch above their weight."

Two winning ideas focus on capturing the full value of innovation investments. After a decade or more of obsessive attention to costs, most companies are now looking to inno-

vation for their edge: A recent survey by Booz Allen found that 90 percent of executives considered innovation crucial to growth, and planned to improve innovation performance by an average of 30 percent. No surprise, then, that "Design to Value" and "Four Sources of Intelligent Innovation" piqued the voters' interest. "Design to Value" shows how to create more value at lower cost through cross-functional collaboration in the critical early stages of design, where 80 percent of the cost and value are locked in to a product or service. "Intelligent Innovation" sprang from the realization that cost cutting and control may have gone as far as they can in R&D departments — sapping some of R&D's creativity. In order to win the competition to innovate, companies must harness the four sources of intelligent innovation: customer insight, global network, future foresight, and an innovation organization.

Given the growth of outsourcing, it's really no surprise that the fourth winner grapples with one of its most nettlesome aspects: Its ben-

efits are elusive, as a wave of disappointing outsourcing deals has demonstrated. Instead of finding high-quality service at low cost with minimal management or oversight required, many outsourcing pioneers have encountered poor service at high costs, and management headaches galore. Usually, the problems stemmed from poorly structured deals. “Getting the Most from Outsourcing” shows how companies can make the promise of outsourcing come true if they address internal management issues, fix the supplier relationships, and competitively re-bid outsourced services.

The four winning entries were true standouts, but the margin between a winner and an also-ran was in some cases razor thin. The following smart business ideas address issues that may have been of less general interest, but are no less critical:

**Sales-Intensive Retailing.** Specialists at the high end and discounters at the low end have put retailers into a competitive vise. But bottom-up improvement of store operations can create substantial value for such sales-intensive retailers as telecommunications companies and financial institutions. “Sales-Intensive Retailing” shows how to do it.

**Rapid Indirect Plant Staff Streamlining.** Manufacturing organizations face a challenge trying to share knowledge and inculcate best practices across all plants. “Rapid Indirect Plant Staff Streamlining” is a four-step process to identify best practice performance, set priorities for improvement, and establish a process to spread best practices across locations.

**Breakthrough Transformation.** Public-sector and regulated organizations, often conservative and risk

averse, tend to resist change even when their competitive environment shifts dramatically. “Breakthrough Transformation” is a five-step approach to surmounting the barriers to change.

#### **Advanced Network Management.**

Networks account for 50 to 70 percent of overall costs of airlines, telecommunications firms, and Internet service providers. Although companies in all three industries confront similar challenges, most do not look across industry boundaries for new ideas. “Advanced Network Management” draws on cross-industry insights to provide best practices for balancing the cost of complexity against the value of variety.

#### **Value Pricing for Suppliers.**

Suppliers with core strength in pricing can improve return on sales by 3 percent — no small matter when customers demand innovation yet insist on price concessions. “Value Pricing for Suppliers” puts the emphasis on the customer’s perception of value, rather than the supplier’s cost, and enables the supplier to capture the economic benefit of cost savings and process innovations.

**The CLEAN Sheet.** Disparate and incompatible accounting systems can produce perplexing and contradictory reports, especially in firms that have grown by M&A. “CLEAN” (an acronym for Coherence within the systems, Link to the outside world, Evaluation of balances, Audit repeatability, and New processes) offers a financial reporting methodology that frees the CFO to spend more time on strategic issues and less on untangling financial reporting mysteries.

To read the four winning entries as well as those of the other finalists, visit [www.leading-innovations.com](http://www.leading-innovations.com). +

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