Innovation 2009
Making Hard Decisions in the Downturn
The Boston Consulting Group (BCG) is a global management consulting firm and the world’s leading advisor on business strategy. We partner with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 66 offices in 38 countries. For more information, please visit www.bcg.com.
Innovation 2009
Making Hard Decisions in the Downturn

A BCG SENIOR MANAGEMENT SURVEY

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bcg.com
Note to the Reader

The Boston Consulting Group, working in partnership with BusinessWeek, recently completed its sixth annual global survey of senior executives on their innovation practices. This report summarizes that survey’s results. It covers the full suite of interrelated activities involved in turning ideas into financial returns, going well beyond ideation and new-product development to include such issues as portfolio and life-cycle management, organizational alignment, and demands on leaders. It discusses what works and what doesn’t and the actions companies are taking to make innovation happen. Finally, the report offers pragmatic advice for individuals who want to make a difference in their organizations.

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Executive Summary

The results of our latest annual survey on corporate innovation shed light on a range of topics central to the pursuit of innovation in 2009, including the one foremost on people’s minds: the current economic crisis. What impact will it have on companies’ objectives, strategies, and tactics? What will it mean for innovation investment, a critical determinant of long-term competitiveness? How are leading companies counteracting and even taking advantage of the challenges they face?

This report discusses these and many other issues related to innovation. We also suggest actions companies can take to maximize their innovation ROI in this challenging environment. Among the report’s findings:

- Innovation remains a strategic priority for the majority of companies, but the number that consider it a top priority is falling. Sixty-four percent of survey respondents ranked it a top-three priority, down from 72 percent in 2006 and 66 percent in 2007 and 2008.

- Most companies expect to raise innovation spending in 2009, but they are growing increasingly cautious. Fifty-eight percent of companies plan to raise spending in the year ahead, down from 63 percent in 2008. And significantly, 14 percent of companies expect to reduce innovation spending in 2009. North American companies are particularly bearish: fully 21 percent expect to lower their spending on innovation.

- Reflecting a growing sensitivity to costs, companies are increasingly leveraging rapidly developing economies (RDEs). Forty-five percent of respondents said their company will increase its R&D investment in RDEs in 2009, up from 37 percent in 2008.

- Simultaneously, companies are increasing their emphasis on innovation geared toward lowering production costs.

- Companies consider a risk-averse corporate culture and lengthy development times to be the two biggest forces holding down their return on innovation spending.

- Customer satisfaction and overall revenue growth are the two main gauges that companies use to determine the success of their innovation efforts.

- C-level executives are more satisfied with the return on innovation spending than the rest of the company. Sixty-three percent of C-level respondents said they were satisfied, versus 50 percent of vice presidents and managers and 47 percent of other employees.

- CEOs are the most visible champions of innovation at most companies, yet fewer than 30 percent of respondents identified them as such, reflecting a void in leadership and a real opportunity for many companies.

- For the third straight year, respondents ranked the “evergreens”—Apple, Google, and Toyota—the most innovative companies, with Apple the hands-down winner once again.

- While companies should certainly take a critical look at their innovation spending in the downturn, they should not make blanket reductions or adopt too defensive a stance. Indeed, the downturn offers an excellent opportunity to make bold strategic moves that can position a company for an economic rebound and fundamentally strengthen its long-term competitive position.
Innovation in 2009
Uncertainty—and Growing Caution

What does the remainder of 2009 hold for corporate innovation? The results of our latest survey, coupled with the ongoing economic pullback, suggest one answer: uncertainty. Companies are reexamining virtually all aspects of their business on an ongoing basis in an effort to separate the essential from the nonessential, the worthwhile investments from the low-payoff ones—and innovation is certainly in play and likely to receive considerable scrutiny. How will this play out, especially for aggregate innovation investment?

Barring a sharp, rapid acceleration in the economic downturn, there seems little risk of a major reduction in innovation spending in 2009. Most companies do indeed see a direct tie between innovation success and their long-term viability, and they are reluctant to do anything drastic unless their backs are truly up against a wall. There is, however, a very good possibility that companies will cut back at the margins, especially if the economy continues to ratchet downward. In fact, we are already seeing signs of that. Even before the downturn began, companies had been scaling back their investment plans—gently but steadily—over the past several years, possibly in frustration with the lack of return on their innovation spending.1 (See Exhibit 1.) It is likely that several forces are acting simultaneously to dampen spending.

Against this backdrop, we expect to see the majority of companies essentially stay the course through 2009—but with a bias toward greater caution. They will maintain their innovation-investment programs but become more selective and raise hurdle rates or shorten payback periods for projects. They will undoubtedly pay increasing attention to costs and will look to accomplish more with less—by investing more heavily in R&D, for example. And they will continue to monitor the economy closely and keep their options open.

Below we take a detailed look at our survey’s findings, which reflect the insights of over 2,700 executives. They touch on attitudes, goals, methods, and competencies and present a fascinating snapshot of today’s increasingly challenging innovation landscape.

The Primacy of Innovation…

Current economic uncertainty notwithstanding, innovation remains a top focus for the majority of companies. (See Exhibit 2.) Fully 64 percent of respondents identified it as one of their top-three strategic priorities, and only 10 percent said that innovation was not a priority. Technology companies, perhaps not surprisingly, attach the greatest importance to innovation: 74 percent of respondents said it was a top-three priority, with 31 percent calling it their company’s number-one strategic priority. (See the Appendix for a look at where innovation ranks as a strategic priority for other industries.)

As we have noted in the past, making innovation a priority is a smart move. There is a strong correlation between innovation prowess and overall business success, as evidenced by the organizations that consistently top our list of the most innovative companies. Emphasizing innovation is also a proven boon to shareholders. We looked at the total shareholder returns (TSR) of the most innovative companies (as identified by our survey respondents) versus those of their industry peers for both the three- and ten-year periods ending December 31, 2008; the results were striking. (See Exhibit 3.) Glob-

Exhibit 1. Persistently Low Satisfaction with Innovation ROI May Be Weighing on Spending Plans

<table>
<thead>
<tr>
<th>Percentage of respondents who say they are satisfied with their company’s return on innovation spending</th>
<th>Percentage of respondents who say their company will increase innovation spending in the coming year</th>
<th>Percentage of respondents who say their company will increase innovation spending significantly (by more than 10 percent) in the coming year</th>
</tr>
</thead>
<tbody>
<tr>
<td>52</td>
<td>46</td>
<td>43</td>
</tr>
</tbody>
</table>

Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey; BCG 2007 Senior Executive Innovation Survey; BCG 2006 Senior Executive Innovation Survey.

Exhibit 2. Innovation Remains a Top Strategic Focus for the Majority of Companies

Where does innovation rank among your company’s strategic priorities?

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top priority</td>
</tr>
<tr>
<td>25</td>
</tr>
</tbody>
</table>

Source: BCG 2009 Senior Executive Innovation Survey.

ally, on an annualized basis, innovators outperformed their peers by 430 basis points over the last three years and by 260 basis points over the last ten years—a sizable premium. The pattern of substantial outperformance held when we looked at regional performance—for example, how innovators based in Europe did compared with their European industry peers. Clearly, if you are an investor, you’d do well to seek out innovative companies.

...But at What Cost?

Companies continue to invest in order to drive innovation: the majority (58 percent) of survey respondents said their company would boost innovation spending in 2009. By region, Asia-Pacific companies have the most aggressive plans, with 73 percent planning to raise spending and 35 percent planning to raise it significantly (that is, by more than 10 percent). By industry, technology and telecommunications companies are the most bullish: 68 percent of respondents said their company would raise
spending, and 32 percent said their company would do so significantly.

But the economic pullback may compel some companies to rethink their plans. Indeed, this year’s poll showed something new in our survey’s six-year history: a jump in the percentage of companies that expect to actively cut innovation spending in the year ahead. Fourteen percent of respondents said their company would do so; 5 percent said they would cut spending significantly. Most bearish by industry are travel, tourism, and hospitality companies (20 percent said their company would cut spending) and financial services companies (19 percent)—two of the economy’s biggest casualties to date. By region, North American companies, which have been on the leading edge of the crisis, are the most cautious, with a sizable 21 percent expecting to cut investment.

As noted, there is another dynamic, independent of the downturn, that is likely to weigh on spending in 2009: dissatisfaction with the return on investment. As Exhibit 1 illustrates, the percentage of companies that expect to raise innovation spending in the year ahead has been trending downward for the past several years, closely tracking a drop in satisfaction with the return on that spending. Correlation does not, of course, imply causation. But we can safely assume, at a minimum, that persistently low satisfaction with innovation ROI is unlikely to drive spending higher.

And “persistently low” is an accurate characterization: even with a rebound in satisfaction this year (to 52 percent, from 43 percent in 2008), only one in two executives is satisfied. And this is the high side of the norm: over the last six years, the proportion of survey respondents who declared themselves satisfied has averaged less than 48 percent. No wonder companies have been questioning innovation spending. In 2009, dissatisfaction was particularly high among North American companies (only 42 percent were satisfied) and among entertainment and media companies (46 percent) and retailers (49 percent).

Finally, it is worth highlighting the ongoing difference in opinion between C-level executives and the rest of the company. In 2009, 63 percent of C-level executives said they were satisfied with their company’s return on innovation spending, versus 50 percent of vice presidents and managers and 47 percent of other employees. This gap, which has endured over the course of our surveys, prompts the obvious question: Who is right? Does the top brass have blinders on? Or does the rest of the company lack the information or perspective necessary to fully understand the cost-benefit calculation?

**Key Metrics: Customer Satisfaction and Revenue Growth**

How do companies determine whether and to what degree their innovation investments are paying off? As we have observed in previous reports, most companies use a fairly short list of metrics—far too short, in our view. (See our companion report, *Measuring Innovation 2009: The Need for Action*, for a detailed look at companies’ innovation-measurement practices.) The two most widely used yardsticks are customer satisfaction (identified by 44 percent of respondents) and overall revenue growth (41 percent). (See Exhibit 4.)
Curiously, one of the least popular metrics remains time to market (19 percent), a chronically underutilized metric according to our surveys and experience. The irony here is that respondents consistently identify a lack of speed as one of their biggest weaknesses when it comes to execution, as well as one of the biggest hurdles to raising the return on their innovation investments.

That remains the case in 2009. It would not be too great a reach to say that until companies start to measure this factor aggressively and regularly, they have little hope of moving it off the top of the list of their biggest obstacles.

Different industries have their own pet metrics, of course. The following are a few noteworthy examples:

- Pharmaceutical, biotechnology, and health care companies focus more than most companies on the number of new offerings
- Retailers look especially closely at the percentage of sales from new offerings, customer satisfaction, and projected versus actual performance
- Automotive companies place particular emphasis on margin growth and time to market

There are also some interesting preferences by region:

- North American companies place significant emphasis on overall revenue growth and relatively little weight on time to market, the number of new offerings, and new-product success ratios
- Asia-Pacific companies place heavy emphasis on new-product success ratios and innovation ROI

### Obstacles to Boosting Investment Returns: Risk Aversion and Lengthy Development Times

When asked to identify the factors that are preventing their companies from generating better returns on their innovation investments, respondents scattered their picks fairly widely. (See Exhibit 5.) The most popular answers were a risk-averse corporate culture (29 percent of respondents) and lengthy development times (27 percent), which

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**Exhibit 4. Customer Satisfaction and Overall Revenue Growth Are the Most Commonly Used Measures of Innovation Success**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>44</td>
</tr>
<tr>
<td>Overall revenue growth</td>
<td>41</td>
</tr>
<tr>
<td>Percentage of sales from new offerings</td>
<td>29</td>
</tr>
<tr>
<td>Projected versus actual performance</td>
<td>25</td>
</tr>
<tr>
<td>Increased margins</td>
<td>23</td>
</tr>
<tr>
<td>New-product success ratios</td>
<td>22</td>
</tr>
<tr>
<td>Number of new products or services</td>
<td>21</td>
</tr>
<tr>
<td>Return on innovation spending</td>
<td>21</td>
</tr>
<tr>
<td>Time to market</td>
<td>19</td>
</tr>
</tbody>
</table>

*Source: BCG 2009 Senior Executive Innovation Survey.*
have been the top two responses for the past several years. On the surface, this suggests that companies are doing little to address their biggest problems. A closer look, however, reveals that the percentage of respondents who identified these factors as obstacles has been moving downward and fell fairly significantly this year, indicating that at least some companies are making headway. (In 2008, both factors were identified by 36 percent of respondents.)

There was again some interesting variation by industry:

- Automotive companies wrestle with difficulties in marketing and publicizing their innovations
- Retailers and automotive companies believe their returns are negatively affected by a lack of executive support
- Entertainment and media companies struggle especially with a lack of customer insight

It is worth noting that, as in past surveys, a fairly small number of respondents—17 percent this year—identified a shortage of great ideas as a hurdle to higher returns. We have discussed the distinction between ideas and innovation in previous reports, but the point is worth making again. New ideas are rarely in short supply. In fact, as we see every day in our innovation practice and our work with companies, most organizations have an abundance of good and often great ideas. But generating ideas and being able to turn those ideas into cash are two entirely different things. The world’s top innovators have mastered both and do not get distracted by the mantra often heard in the press and from pundits that the problem is a need for “breakthrough ideas.” That simply is not true, as this year’s survey again proves.

### Exhibit 5. A Risk-Averse Culture and Lengthy Development Times Are the Biggest Hurdles to Improving the Return on Innovation Spending

**What are the biggest obstacles you face when it comes to generating a return on your investments in innovation?**

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-averse culture</td>
<td>29</td>
</tr>
<tr>
<td>Lengthy development times</td>
<td>27</td>
</tr>
<tr>
<td>Lack of coordination within the company</td>
<td>23</td>
</tr>
<tr>
<td>Difficulty selecting the right ideas to commercialize</td>
<td>22</td>
</tr>
<tr>
<td>Compensation not tied to innovation results</td>
<td>22</td>
</tr>
<tr>
<td>Inability to adequately measure performance</td>
<td>21</td>
</tr>
<tr>
<td>Ineffective marketing and communications</td>
<td>20</td>
</tr>
<tr>
<td>Insufficient support from leadership and management</td>
<td>20</td>
</tr>
<tr>
<td>Not enough customer insight</td>
<td>17</td>
</tr>
<tr>
<td>Not enough great ideas</td>
<td>17</td>
</tr>
</tbody>
</table>

**Source:** BCG 2009 Senior Executive Innovation Survey.
Objectives and Tactics

What are companies specifically targeting with their innovation efforts? And what levers are they using? The answers to these questions may be starting to change in response to the economy.

A Growing Emphasis on Cost Reduction...

Companies can direct their innovation efforts at a range of objectives, from small upgrades to existing products to new offerings that spawn entire industries. For the past three years, we have asked respondents to prioritize among five of them:

- “New to the world” products or services that create entirely new markets
- New offerings that allow expansion into new consumer groups
- New offerings for existing customers
- Incremental changes to existing offerings
- Lower production costs for existing offerings

New offerings for existing customers has been the top choice in each of the past several years, followed by new offerings that allow expansion into new consumer groups. In 2009, those two objectives were identified, respectively, by 88 percent and 85 percent of respondents as important or extremely important to their company’s success. (See Exhibit 6.) These percentages are nearly identical to what we saw in 2008.

There was, however, an eye-catching change in the importance attached to innovation leading to lower production costs. In 2008, 64 percent of respondents said that type of innovation was important or extremely important to their business; in 2009, the percentage was 73. Presumably, many companies anticipate limited pricing power or revenue growth in the months ahead and are seeking to maintain profitability through lower input costs. (In a similar vein, there was an increase in the number of companies emphasizing innovation that leads to incremental changes to existing products; 65 percent of respondents said that it was important or extremely important to their business, versus 55 percent in 2008. This is likely another sign of lowered expectations—and pragmatism.) This emphasis on lower production costs can be expected to grow if the economy continues to contract.

In parallel, there was a rise in the value assigned to innovation that generates new-to-the-world offerings that create entirely new markets. Seventy-three percent of respondents identified it as important or extremely important this year, versus 66 percent in 2008. This could be a case of companies attacking the same problem from the opposite angle: with top-line growth in their traditional markets likely to remain stagnant or contract in the months ahead, why not seek entirely new revenue streams—and why not aim high?

Responses to the question of which type of innovation is most important were fairly uniform by industry, but there were some outliers, most of which were driven by the particular industry dynamics these players face.

- Technology and telecommunications companies attach critical importance to new-to-the-world offerings, as do industrial and manufacturing companies (81 per-
Automotive companies are the most focused on reducing production costs: fully 89 percent of industry respondents said it was important or extremely important.

Travel, tourism, and hospitality companies are the biggest proponents of innovation leading to new offerings that allow expansion into new consumer groups: 89 percent of industry respondents identified it as important or extremely important.

...And a Larger Role for Rapidly Developing Economies

Companies have been taking a consistent but measured approach to increasing the use of RDEs in their innovation efforts, nudging up the emphasis on these economies over time. In 2007, for example, 38 percent of survey respondents said they planned to increase their RDE exposure in the year ahead; in 2008, 37 percent said so. In 2009, the percentage jumped to 45, consistent with a growing sensitivity to costs. (See Exhibit 7.)

By region, Asia-Pacific companies have the most aggressive plans, with 70 percent expecting to increase their investment in RDEs. In contrast, only 46 percent of European and 31 percent of North American companies plan to do so. By industry, technology and telecommunications companies and industrial and manufacturing companies are the most bullish: 60 percent and 58 percent of executives from these industries, respectively, said their company would raise its R&D investment in RDEs.

Also worth noting is the change in how companies plan to direct those investments. In 2008, among companies that expected to increase their use of RDEs, India and China were outsized targets: 67 percent and 61 percent of respondents said their company would raise its investment in these two countries, respectively. In 2009, however, planned incremental investments in India and Chi-
Is your company planning to increase its innovation investments in low-cost countries or regions?

Percentage of respondents

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>37</td>
<td>45</td>
</tr>
<tr>
<td>No</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Not sure</td>
<td>22</td>
<td>19</td>
</tr>
</tbody>
</table>

If so, in which countries or regions will it be increasing its investments?

Percentage of respondents

<table>
<thead>
<tr>
<th>Region</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>67</td>
<td>32</td>
</tr>
<tr>
<td>China</td>
<td>61</td>
<td>37</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>Latin America</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 7. Companies Are Increasing Their Emphasis on Rapidly Developing Economies—but Are Being Highly Selective

Sources: BCG 2009 Senior Executive Innovation Survey; BCG 2008 Senior Executive Innovation Survey.

Note: Southeast Asia was not offered as a choice in the 2008 survey.

Is your company planning to increase its innovation investments in low-cost countries or regions?

Companies planning to increase their use of RDEs also intend to scale back their investments in each of the various innovation capabilities, especially product development. (See Exhibit 8.) In 2008, nearly three out of four companies that planned to raise their RDE weighting intended to invest more heavily in product development. In 2009, that percentage fell to 49. Investment in all other components of innovation—testing, design, idea generation, and basic research—also declined, though by much smaller degrees.

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How to interpret this? Viewed through the lens of the increasingly uncertain economic outlook, it’s a sound response that is to be expected. Companies are tightening the reins on costs, and RDEs can be a powerful lever in that effort. Simultaneously, companies are becoming increasingly selective in an effort to maximize the impact of the bets they do make.

Noteworthy results by industry include the following:

- Automotive companies and industrial-goods and manufacturing companies have the most aggressive plans regarding China, with 47 percent and 45 percent, respectively, planning to raise their weighting there (versus a 37 percent global average)

- Automotive companies, in particular, are guarded about delegating idea generation to RDEs: only 13 percent of industry respondents said their company would raise its allocation, versus a 28 percent global average; simultaneously, a greater than average percentage of automotive industry respondents (47 percent, versus a 31 percent global average) said their company would increase its use of RDEs for product design

- Energy companies are investing aggressively in product development in RDEs: 65 percent of respondents
said their company would increase its allocation, versus a 49 percent global average.

There were also some interesting results by region:

- A strong bias toward local markets prevails: European companies have the most aggressive plans regarding investments in Eastern European RDEs, Asia-Pacific companies have the most aggressive plans regarding China, and Latin American companies have the most aggressive plans regarding Latin American RDEs; again, this is consistent with a rising premium on risk mitigation.

- Asia-Pacific companies plan to make relatively heavy investments in RDEs for basic research, idea generation, and design.

**M&A Activity?**

Much corporate innovation activity is organic, in-house, and internally generated or orchestrated. But not all. In this year’s survey we posed a new question: What role do mergers and acquisitions (M&A) play in your company’s innovation strategy? The salient finding: M&A does indeed play a key role for many companies. (See Exhibit 9.) Companies are using M&A to achieve a range of ends: to gain access to new markets (29 percent of respondents said their company engages in or has engaged in M&A for this purpose), acquire innovation-supporting technology (27 percent), and secure innovative leaders and personnel (19 percent). Companies are also using innovation experts to vet potential acquisitions (19 percent).

M&A’s specific role varies by industry—and by region:

- As might be expected, M&A plays an outsized role among pharmaceutical, biotechnology, and health care companies (only 19 percent of respondents from that industry said that M&A does not play a significant role in their innovation strategy).

- Consumer products companies make relatively heavy use of innovation experts to vet acquisition targets (25 percent of respondents said their company engages in or has engaged in M&A for this purpose).
percent of industry respondents, versus a 19 percent global average); they also aggressively employ M&A to acquire innovation talent and leadership (26 percent, versus a 19 percent global average)

- Automotive companies make active use of M&A to acquire innovative technologies that can be deployed in their existing businesses (38 percent, versus a 27 percent global average)

- By region, European companies employ M&A most aggressively; only 24 percent of respondents said it was not a major part of their innovation strategy

- Asia-Pacific companies employ M&A actively on all fronts, particularly to acquire technology and expertise and gain access to new markets

- North American companies, in contrast, make relatively limited use of M&A; 36 percent of respondents said it does not play a significant role in their innovation strategy
A successful innovation process requires a range of capabilities, from idea generation and R&D through portfolio management and product launch. We asked respondents to gauge their organization’s performance, from excellent to poor, in these specific areas:

- Developing a deep understanding of customers
- Partnering with suppliers and others for new ideas
- Ensuring executive-level support for projects
- Enforcing timelines and milestones
- Earmarking sufficient funds for projects
- Moving quickly from idea generation to initial sales
- Balancing risks, time frames, and returns across an entire portfolio of projects
- Fostering a company culture that promotes innovation

There were few surprises in the responses; indeed, this self-assessment yields strikingly similar results from year to year. This continuity suggests that companies are maintaining or building on their strengths. But it also suggests that companies are not addressing their weaknesses effectively—if they are addressing them at all.

**Successes: Executive Sponsorship and Customer Knowledge**

For the last four years, companies have consistently given themselves the highest marks in two areas—ensuring executive-level sponsorship of projects and developing a deep understanding of customers. In 2009, 66 percent and 65 percent of respondents rated their company excellent or above average at those two capabilities, respectively. (See Exhibit 10.) Energy companies consider executive sponsorship to be a particular strength (73 percent). The ability to develop a deep understanding of customers is considered a strong suit by financial services companies (71 percent), pharmaceutical, biotechnology, and health care companies (70 percent), and Asia-Pacific companies generally (76 percent).

As in prior years, many respondents (59 percent) also rated their company excellent or above average at fostering a company culture that promotes innovation. This is noteworthy, given that a risk-averse culture has been consistently identified in our surveys as one of the largest obstacles to maximizing the return on innovation investment. (As noted above, it was the biggest obstacle in 2009.) Technology and telecommunications companies (68 percent) judge culture to be a particular strength.

A linchpin of both executive sponsorship and a supportive culture is, of course, strong leadership. As in years past, respondents in 2009 identified the CEO as the biggest driver of innovation at their company. (See Exhibit 11.) Yet only 28 percent of respondents said so, suggesting that in many companies there is a real leadership vacuum. That vacuum can come at a substantial cost, since our experience confirms that a CEO who is visibly committed to innovation can play a determining role in the ultimate success or failure of a company’s innovation efforts. Leaders should do some soul-searching and determine whether they are giving innovation all the support it truly needs. And they should make it a candid self-assessment: while 79 percent of CEOs, presidents, and
Exhibit 10. Executive Support and Deep Customer Understanding Are Companies’ Greatest Strengths

How strong is your company’s current performance in each of the following innovation capabilities?

<table>
<thead>
<tr>
<th>Innovation Capability</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring executive-level support</td>
<td>66</td>
</tr>
<tr>
<td>Developing a deep understanding of customers</td>
<td>65</td>
</tr>
<tr>
<td>Fostering a culture of innovation</td>
<td>59</td>
</tr>
<tr>
<td>Partnering with suppliers and others for new ideas</td>
<td>58</td>
</tr>
<tr>
<td>Earmarking sufficient funds</td>
<td>56</td>
</tr>
<tr>
<td>Balancing risks, time frames, and returns across the portfolio</td>
<td>56</td>
</tr>
<tr>
<td>Enforcing project timelines and milestones</td>
<td>54</td>
</tr>
<tr>
<td>Moving quickly from idea generation to initial sales</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: BCG 2009 Senior Executive Innovation Survey.

Exhibit 11. The CEO Is the Biggest Driver of Innovation

Who is the biggest force driving innovation at your company?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executive officer</td>
<td>28</td>
</tr>
<tr>
<td>President</td>
<td>18</td>
</tr>
<tr>
<td>Chairperson</td>
<td>14</td>
</tr>
<tr>
<td>Chief operating officer</td>
<td>7</td>
</tr>
<tr>
<td>Chief information officer</td>
<td>5</td>
</tr>
<tr>
<td>Vice president or head of R&amp;D</td>
<td>5</td>
</tr>
<tr>
<td>Vice president or head of marketing</td>
<td>5</td>
</tr>
<tr>
<td>Vice president or head of innovation</td>
<td>3</td>
</tr>
<tr>
<td>Chief financial officer</td>
<td>3</td>
</tr>
<tr>
<td>Vice president or head of strategy</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: BCG 2009 Senior Executive Innovation Survey.
chairmen and chairwomen said they do an excellent or above-average job at ensuring executive-level support for innovation projects, only 64 percent of other respondents thought so.

There were some interesting results by industry:

- Travel, tourism, and hospitality companies consider themselves particularly strong at enforcing project timelines and milestones (66 percent of respondents consider their company excellent or above average at it, versus a 54 percent global average)

- Industrial goods and manufacturing companies consider themselves strong at securing sufficient funds for projects (66 percent, versus a 56 percent global average)

**Challenges: Speed and Discipline**

Respondents also acknowledged shortcomings in their innovation capabilities—and again, there were strong echoes from previous surveys. The most commonly identified challenge (45 percent of respondents) was speed—the time it takes to move from idea generation to initial sales. (See Exhibit 12.) Speed was deemed a particular problem by automotive companies (56 percent of respondents rated their company below average or poor) and energy companies (54 percent). The second most commonly identified challenge (41 percent) was discipline—the ability to strictly enforce timelines and milestones. North American companies generally struggle with this capability (48 percent).

These two capabilities, it should be noted, were identified as the top two challenges in our 2007 and 2008 surveys and ranked high in earlier surveys as well. Clearly, companies need to give far greater attention to these areas.

Every industry wrestles with its own particular challenges, of course. Among the more noteworthy findings:

- Entertainment and media companies and energy companies struggle to develop a deep understanding of customers (41 percent and 39 percent, respectively, rate themselves below average or poor, versus a 32 percent global average)

- Automotive companies struggle with fostering a culture that supports innovation (55 percent, versus a 38 percent global average)

---

** Exhibit 12. Speed and Discipline Are Companies’ Greatest Challenges **

<table>
<thead>
<tr>
<th>Percentage of respondents who said “below average” or “poor”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moving quickly from idea generation to initial sales</td>
</tr>
<tr>
<td>Enforcing project timelines and milestones</td>
</tr>
<tr>
<td>Earmarking sufficient funds</td>
</tr>
<tr>
<td>Balancing risks, time frames, and returns across the portfolio</td>
</tr>
<tr>
<td>Fostering a culture of innovation</td>
</tr>
<tr>
<td>Partnering with suppliers and others for new ideas</td>
</tr>
<tr>
<td>Developing a deep understanding of customers</td>
</tr>
<tr>
<td>Ensuring executive-level support</td>
</tr>
</tbody>
</table>

*Source: BCG 2009 Senior Executive Innovation Survey.*
The Most Innovative Companies

Before 2008, our rankings of the most innovative companies were based on a single criterion—respondents’ picks. In 2008, in an effort to make the results more robust and truly reflective of the actual top innovators, we supplemented those choices with three financial measures: three-year shareholder returns, three-year revenue growth, and three-year margin growth. We used that same methodology this year. Respondents’ votes counted for 80 percent of the ranking, shareholder returns for 10 percent, and revenue and margin growth for 5 percent each.

We also asked respondents to specify, from the following five general criteria, their primary reason for picking each company (they could also choose “other”):

- The company employs innovative operational processes that give it an advantage
- The company’s business models for revenue streams are new and differentiated
- The company has created unique customer experiences that create loyalty
- The company has developed breakthrough products
- The company has developed breakthrough services

The results are presented in Exhibit 13. Apple, Google, and Toyota once again took the top three spots, as in 2007 and 2008. (There were some significant changes elsewhere in the rankings, however.) Exhibit 14 shows the rankings of the top five innovators within each industry. These results are based solely on respondents’ votes (that is, no financial criteria were employed).

We also asked respondents to name the companies they considered to be particularly innovative that are not yet broadly recognized as such. Exhibit 15 highlights a number of those companies.
### Exhibit 13. Apple, Google, and Toyota Remain the Pacesetters

#### Which global companies do you consider the most innovative and why?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Primary reason for selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apple</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>2</td>
<td>Google</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>3</td>
<td>Toyota Motor Corporation</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>4</td>
<td>Microsoft Corporation</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>5</td>
<td>Nintendo</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>6</td>
<td>IBM Corporation</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>7</td>
<td>Hewlett-Packard Development Company</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>8</td>
<td>Research in Motion</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>9</td>
<td>Nokia Corporation</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>10</td>
<td>Wal-Mart Stores</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>11</td>
<td>Amazon.com</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>12</td>
<td>Procter &amp; Gamble</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>13</td>
<td>Tata Group</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>14</td>
<td>Sony Corporation</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>15</td>
<td>Reliance Industries</td>
<td>New and differentiated business models</td>
</tr>
<tr>
<td>16</td>
<td>Samsung Electronics</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>17</td>
<td>General Electric Company</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>18</td>
<td>Volkswagen</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>19</td>
<td>McDonald’s</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>20</td>
<td>BMW Group</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>21</td>
<td>The Walt Disney Company</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>22</td>
<td>Honda Motor Company</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>23</td>
<td>AT&amp;T</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>24</td>
<td>The Coca-Cola Company</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>25</td>
<td>Vodafone Group</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>26</td>
<td>Infosys Technologies Limited</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>27</td>
<td>LG Electronics</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>28</td>
<td>Telefónica</td>
<td>New and differentiated business models</td>
</tr>
<tr>
<td>29</td>
<td>Daimler</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>30</td>
<td>Verizon Communications</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>31</td>
<td>Ford Motor Company</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>32</td>
<td>Cisco Systems</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>33</td>
<td>Intel Corporation</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>34</td>
<td>Virgin Group</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>35</td>
<td>ArcelorMittal</td>
<td>New and differentiated business models</td>
</tr>
<tr>
<td>36</td>
<td>HSBC Group</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>37</td>
<td>Exxon Mobil Corporation</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>38</td>
<td>Nestlé</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>39</td>
<td>Iberdrola</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>40</td>
<td>Facebook</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>41</td>
<td>3M</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>42</td>
<td>Banco Santander</td>
<td>New and differentiated business models</td>
</tr>
<tr>
<td>43</td>
<td>Nike</td>
<td>Unique customer experiences and breakthrough products (tie)</td>
</tr>
<tr>
<td>44</td>
<td>Johnson &amp; Johnson</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>45</td>
<td>Southwest Airlines</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>46</td>
<td>Lenovo</td>
<td>New and differentiated business models</td>
</tr>
<tr>
<td>47</td>
<td>JPMorgan Chase &amp; Company</td>
<td>Innovative processes</td>
</tr>
<tr>
<td>48</td>
<td>Fiat Automobiles</td>
<td>Breakthrough products</td>
</tr>
<tr>
<td>49</td>
<td>Target Corporation</td>
<td>Unique customer experiences</td>
</tr>
<tr>
<td>50</td>
<td>Royal Dutch Shell</td>
<td>Innovative processes</td>
</tr>
</tbody>
</table>

**Source:** BCG 2009 Senior Executive Innovation Survey.

**Note:** Rankings are based on a combination of survey responses (80 percent weighting), three-year TSR (10 percent), three-year revenue growth (5 percent), and three-year margin growth (5 percent).
### Exhibit 14. Respondents Named the Most Innovative Companies by Industry

<table>
<thead>
<tr>
<th>Financial services</th>
<th>Automotive and motor vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ING Group</td>
<td>1. Toyota Motor Corporation</td>
</tr>
<tr>
<td>2. Bank of America Corporation</td>
<td>2. BMW Group</td>
</tr>
<tr>
<td>3. HSBC Group</td>
<td>3. Honda Motor Company</td>
</tr>
<tr>
<td>5. The Goldman Sachs Group</td>
<td>5. Ford Motor Company</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pharmaceuticals, biotechnology, and health care</th>
<th>Industrial goods and manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pfizer</td>
<td>1. General Electric Company</td>
</tr>
<tr>
<td>2. Bayer</td>
<td>2. Tata Group</td>
</tr>
<tr>
<td>3. Genentech</td>
<td>3. 3M</td>
</tr>
<tr>
<td>4. GlaxoSmithKline</td>
<td>4. Siemens Corporation</td>
</tr>
<tr>
<td>5. Merck &amp; Company</td>
<td>5. Boeing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology and telecommunications</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Apple</td>
<td>1. Wal-Mart Stores</td>
</tr>
<tr>
<td>2. Google</td>
<td>2. Target Corporation</td>
</tr>
<tr>
<td>3. Vodafone Group</td>
<td>3. Amazon.com</td>
</tr>
<tr>
<td>4. Microsoft Corporation</td>
<td>4. Reliance Industries</td>
</tr>
<tr>
<td>5. Nokia Corporation</td>
<td>5. Apple</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Entertainment and media</th>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Walt Disney Company</td>
<td>1. BP</td>
</tr>
<tr>
<td>2. Sony Corporation</td>
<td>2. Reliance Industries</td>
</tr>
<tr>
<td>3. Apple</td>
<td>3. Royal Dutch Shell</td>
</tr>
<tr>
<td>4. Time Warner</td>
<td>4. ENI-Ente Nazionale Idrocarburi</td>
</tr>
<tr>
<td>5. Google</td>
<td>5. General Electric Company</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer products</th>
<th>Travel, tourism, and hospitality</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Apple</td>
<td>1. Marriott International</td>
</tr>
<tr>
<td>2. Procter &amp; Gamble</td>
<td>2. Southwest Airlines</td>
</tr>
<tr>
<td>3. Unilever</td>
<td>3. Hilton Hotels Corporation</td>
</tr>
<tr>
<td>4. The Coca-Cola Company</td>
<td>4. Virgin Group</td>
</tr>
<tr>
<td>5. Nestlé</td>
<td>5. Starwood Hotels &amp; Resorts Worldwide</td>
</tr>
</tbody>
</table>

**Source:** BCG 2009 Senior Executive Innovation Survey.

**Note:** Rankings are based on responses to the question “Please name the company you believe is the most innovative in the world within the following industries”; ties were broken using three-year TSR performance.

### Exhibit 15. Respondents Identified Up-and-Coming Innovators

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla Motors</td>
<td>◦ Maker of the Tesla Roadster, a high-performance electric sports car</td>
</tr>
<tr>
<td>IDEO</td>
<td>◦ Specialists that provide full-service consulting for product innovation and design</td>
</tr>
<tr>
<td>Alibaba.com</td>
<td>◦ A leading business-to-business marketplace and the largest e-commerce company in China</td>
</tr>
<tr>
<td>Better Place</td>
<td>◦ Venture-backed company that aims to reduce global dependency on oil</td>
</tr>
<tr>
<td>Dyson Group</td>
<td>◦ Maker of innovative vacuum cleaners (such as the Dyson Ball)</td>
</tr>
<tr>
<td>Grameen Bank</td>
<td>◦ Microfinance organization started in Bangladesh</td>
</tr>
<tr>
<td>Mozilla</td>
<td>◦ Creator of the Firefox Web browser</td>
</tr>
<tr>
<td>Mint Software</td>
<td>◦ Provider of online personal-finance tools</td>
</tr>
<tr>
<td>iRobot Corporation</td>
<td>◦ Maker of home-cleaning, industrial, and military robots</td>
</tr>
<tr>
<td>Hulu</td>
<td>◦ Producer of ad-supported streaming TV shows and movies, including some in high definition</td>
</tr>
</tbody>
</table>

**Source:** BCG 2009 Senior Executive Innovation Survey.

**Note:** This is a sampling of responses to the question “Please name three companies that you think are among the most innovative in the world but that most respondents to this survey have not heard of or whose innovations would not be widely known.” All companies on this list had less than $1 billion in revenue in 2007.
Leading out of the Downturn

Seven Aggressive Innovation Strategies

The current economic woes call to mind the old joke about two campers who see a bear approaching their campsite. As one camper starts to lace up his sneakers, the other one says, “What are you doing? Sneakers won’t help you outrun a bear!” To which the first camper retorts, “I don’t have to outrun the bear—I just have to outrun you!”

No company can hope to outrun this bear market and emerge unharmed in the short term. But companies can take steps that will vastly improve their standing versus competitors, and they can position themselves optimally for an eventual economic rebound. Innovation can and should play a key part in that effort.

Below are seven innovation strategies that companies should consider implementing now, even though things continue to look bleak or at least very uncertain. Ideally, companies seeking to employ these strategies will start from a relatively strong financial position. But even those that do not can still leverage some of these strategies by freeing up cash through cost-cutting moves and reprioritization.

Stay aggressively invested in innovation. For companies not fighting for immediate survival, now is the time, first and foremost, to sustain or even increase their commitment to innovation—especially since their competitors may be unable or unwilling to do so. This obviously requires a superior cash position, strength in other areas of the business, and courage and leadership.

Acquire intellectual property on the cheap. As small companies’ traditional funding sources dry up, large, liquid companies have a unique opportunity to acquire intellectual property at fire-sale prices. One cash-rich manufacturer, for example, recently had its eye on a small start-up that possessed new technology that could create a valuable market adjacent to the manufacturer’s business. Desperate for cash, the smaller company accepted terms that would have been unthinkable in a stronger economy, selling the manufacturer a one-third ownership stake and a valuable first right of refusal for any future sale of the company or its intellectual property.

Alter your business model in strategic, game-changing ways. The perfect time to create a new business model is during a financial downturn, when it’s harder for competitors to see, understand, copy, or adequately respond to changes. Innovative approaches to rethinking not only which activities a company should engage in, but also how it should do so and who should take these initiatives on, are particularly likely to pay off during downturns, when creative moves are difficult to follow by the less courageous (or flexible). Which industries will be transformed during this recession by bold companies?

Go bargain hunting. The plunging stock market may offer a great opportunity to buy innovative companies—and their people, patents, products, and competitive position—at steep discounts. Pharmaceutical companies are already aggressively seizing the moment: according to BusinessWeek, drug companies had announced $142 billion in deals by November 2008, up 18 percent from all of 2007, and still have over $110 billion in cash on their balance sheets. And the buying spree has continued in the early months of 2009, with several deals already announced, some of them driven by the desire to acquire innovative products and promising innovation pipelines. M&A activity will likely continue to increase as the downturn drags on, with assets continuing to be available at...
significant discounts. The optimal candidate for leveraging this situation would be a company in an industry where values are depressed but development pipelines are rich. (Good examples are pharmaceutical companies, technology companies, and higher-end technology-intensive industrial companies.)

**Raid your competitors’ talent pools.** Exceptional people are always a scarce resource. According to a leading executive-search company, while it still takes a compelling offer to lure top talent, the bar is much lower now than it was a year ago. As R&D budgets are cut and as funding tightens and job insecurity rises, a stable company with deep financial resources will find its drawing power disproportionately enhanced—and it should leverage that advantage aggressively.

**Stage a network invasion.** The downturn presents an opportunity to capture key partnerships, collaborators, and customer networks from weakened competitors. This strategy is viable in industries characterized either by exclusive relationships or by strong innate network effects that create barriers to entry. Companies should look for vulnerable players and identify a point of leverage to force out the incumbent and stake a claim on the network. This strategy has been successfully executed in the past by telecommunications suppliers, among others.

**Use innovation to attack competitors’ profit strongholds.** A company we’ll call Wolf was a large, diversified organization with strong positions in all sectors in which it competed. Another company, which we’ll call Sheep, was smaller, and its business was driven by a dominant position in a single sector. When a tough economy put Sheep under financial pressure, Wolf decided to attack Sheep’s stronghold. Wolf used its strong innovation skills and excess production capacity to create a product line that competed directly with Sheep’s 20 most profitable SKUs. Wolf’s product line offered much lower prices and, in some cases, better performance. Unable to profitably compete, Sheep was put up for sale—and bought by Wolf at a bargain price.

In our experience, while the vast majority of companies batten down the hatches in times of crisis, leading companies take a more sophisticated and proactive approach. Yes, they pull defensive levers that improve short-term performance, but they also aggressively leverage the strategies described above to fundamentally change their long-term competitive position. It’s ultimately a question of vision. Companies that win with innovation see the downturn as a chance to re-create their industry—on their own terms.
Survey Methodology

In November 2008, BCG sent this year’s survey electronically to recipients of previous BCG innovation surveys whose e-mail addresses were known. We also sent it to BCG alumni who work in an innovation-related role in their current company and to senior management members of the BusinessWeek Market Advisory Board, an online reader panel. Participation was voluntary and anonymous. The survey closed in January 2009.

In total, 2,701 executives responded, representing all major markets and industries. The responses broke down as follows:

Region
North America  1,015
Europe 905
Asia-Pacific  604
Latin America  164
Other  10
No response  3
Total 2,701

Industry
Technology and telecommunications  527
Industrial goods and manufacturing  365
Financial services  352
Pharmaceuticals, biotechnology, and health care  208
Consumer products  204
Entertainment and media  136
Retail 91
Energy  82
Travel, tourism, and hospitality  67
Automotive and motor vehicles  63
Other 548
No response  58
Total 2,701

Position
C level
Chief executive officer or president 225
Chief information officer or chief technology officer 123
Chief operating officer or managing director 99
Chief financial officer, controller, or treasurer 53
Chairperson 39
Board member 24
Other C-level executive  46
Subtotal 609

Other levels
Department manager or supervisor 426
Director or group or division director 311
Professional 298
Vice president 160
General manager 132
Administrative or clerical staff 130
Technical staff 120
Owner or partner 109
Consultant 105
Sales representative 47
Government or public official 45
Senior or executive vice president 14
Other positions 149
Subtotal 2,046
No response 46
Total 2,701
Appendix
Key Survey Findings by Industry

As a new feature in this year’s report, we present key survey findings by industry. For each industry, we show the following:

- How innovation ranks as a strategic priority
- The planned change in innovation spending in 2009
- Satisfaction with the return on innovation spending
- The three most commonly used innovation metrics
- The three biggest hurdles to raising the return on innovation spending
- The percentage of companies that plan to increase their investment in RDEs and the countries or regions where they will concentrate those investments

Responses to the questions regarding strategic priority, spending, satisfaction with innovation ROI, and RDE investments are compared with those for other industries.

Automotive and Motor Vehicles

<table>
<thead>
<tr>
<th>Innovation as a strategic priority</th>
<th>Planned change in innovation spending</th>
<th>Satisfaction with innovation ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percentage of respondents</strong></td>
<td><strong>Percentage of respondents</strong></td>
<td><strong>Percentage of respondents</strong></td>
</tr>
<tr>
<td></td>
<td>Top priority</td>
<td>&gt;10 percent</td>
</tr>
<tr>
<td>All other industries</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Automotive and motor vehicles</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Top-three priority</td>
<td>0 to 10 percent</td>
</tr>
<tr>
<td>All other industries</td>
<td>39</td>
<td>32</td>
</tr>
<tr>
<td>Automotive and motor vehicles</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Top-ten priority</td>
<td>No change</td>
</tr>
<tr>
<td>All other industries</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Automotive and motor vehicles</td>
<td>29</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Not a priority</td>
<td>0 to −10 percent</td>
</tr>
<tr>
<td>All other industries</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Automotive and motor vehicles</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;−10 percent</td>
</tr>
<tr>
<td>All other industries</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Automotive and motor vehicles</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

Main innovation metrics used
- Overall revenue growth
- Increased margins
- Percentage of sales from new offerings

Biggest obstacles to raising innovation ROI
- Ineffective marketing and communications
- Risk-averse culture
- Insufficient support from leadership and management

Planned expansion into RDEs
- 51 percent (all other industries = 46 percent)
- China and Eastern Europe

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.
### Consumer Products

**Innovation as a strategic priority**

- **Percentage of respondents**
  - **Top priority**: 25%
  - **Top-three priority**: 39%
  - **Top-ten priority**: 26%
  - **Not a priority**: 10%

**Planned change in innovation spending**

- **Percentage of respondents**
  - **>10 percent**: 26%
  - **0 to 10 percent**: 31%
  - **No change**: 28%
  - **<−10 percent**: 10%

**Satisfaction with innovation ROI**

- **Percentage of respondents**
  - **Yes**: 52%
  - **No**: 24%
  - **Not sure**: 26%

### Energy

**Innovation as a strategic priority**

- **Percentage of respondents**
  - **Top priority**: 25%
  - **Top-three priority**: 39%
  - **Top-ten priority**: 26%
  - **Not a priority**: 10%

**Planned change in innovation spending**

- **Percentage of respondents**
  - **>10 percent**: 26%
  - **0 to 10 percent**: 32%
  - **No change**: 28%
  - **<−10 percent**: 9%

**Satisfaction with innovation ROI**

- **Percentage of respondents**
  - **Yes**: 52%
  - **No**: 24%
  - **Not sure**: 23%

---

**Main innovation metrics used**

- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

**Source**: BCG 2009 Senior Executive Innovation Survey.

**Note**: Because of rounding, percentages may not add up to 100.
Entertainment and Media

Innovation as a strategic priority

- **Percentage of respondents**
  - Top priority: 25% (All other industries), 21% (Entertainment and media)
  - Top-three priority: 39% (All other industries), 43% (Entertainment and media)
  - Top-ten priority: 26% (All other industries), 28% (Entertainment and media)
  - Not a priority: 10% (All other industries), 7% (Entertainment and media)

Planned change in innovation spending

- **Percentage of respondents**
  - >10 percent: 27% (All other industries), 23% (Entertainment and media)
  - 0 to 10 percent: 31% (All other industries), 36% (Entertainment and media)
  - No change: 28% (All other industries), 30% (Entertainment and media)
  - 0 to ~10 percent: 9% (All other industries), 4% (Entertainment and media)
  - >–10 percent: 5% (All other industries), 7% (Entertainment and media)

Satisfaction with innovation ROI

- **Percentage of respondents**
  - Yes: 52% (All other industries), 46% (Entertainment and media)
  - No: 24% (All other industries), 33% (Entertainment and media)
  - Not sure: 24% (All other industries), 21% (Entertainment and media)

Main innovation metrics used
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

Biggest obstacles to raising innovation ROI
- Risk-averse culture
- Lengthy development times
- Lack of coordination within the company

Planned expansion into RDEs
- 43 percent (all other industries = 46 percent)
- Eastern Europe, China, and India

Financial Services

Innovation as a strategic priority

- **Percentage of respondents**
  - Top priority: 25% (All other industries), 23% (Financial services)
  - Top-three priority: 39% (All other industries), 40% (Financial services)
  - Top-ten priority: 26% (All other industries), 27% (Financial services)
  - Not a priority: 10% (All other industries), 10% (Financial services)

Planned change in innovation spending

- **Percentage of respondents**
  - >10 percent: 26% (All other industries), 26% (Financial services)
  - 0 to 10 percent: 32% (All other industries), 29% (Financial services)
  - No change: 28% (All other industries), 26% (Financial services)
  - 0 to ~10 percent: 9% (All other industries), 13% (Financial services)
  - >–10 percent: 5% (All other industries), 6% (Financial services)

Satisfaction with innovation ROI

- **Percentage of respondents**
  - Yes: 52% (All other industries), 56% (Financial services)
  - No: 25% (All other industries), 19% (Financial services)
  - Not sure: 23% (All other industries), 24% (Financial services)

Main innovation metrics used
- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

Biggest obstacles to raising innovation ROI
- Risk-averse culture
- Lack of coordination within the company
- Inability to adequately measure performance

Planned expansion into RDEs
- 42 percent (all other industries = 46 percent)
- Eastern Europe and China

Source: BCG 2009 Senior Executive Innovation Survey.

Note: Because of rounding, percentages may not add up to 100.
### Innovation as a strategic priority

<table>
<thead>
<tr>
<th>Industry</th>
<th>Top priority</th>
<th>Top-three priority</th>
<th>Top-ten priority</th>
<th>Not a priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other industries</strong></td>
<td>25%</td>
<td>39%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Industrial goods and manufacturing</strong></td>
<td>30%</td>
<td>38%</td>
<td>26%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Main innovation metrics used**
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

**Source:** BCG 2009 Senior Executive Innovation Survey.
**Note:** Because of rounding, percentages may not add up to 100.

### Planned change in innovation spending

<table>
<thead>
<tr>
<th>Industry</th>
<th>&gt;10 percent</th>
<th>0 to 10 percent</th>
<th>No change</th>
<th>0 to −10 percent</th>
<th>&gt;−10 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other industries</strong></td>
<td>27%</td>
<td>31%</td>
<td>28%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Industrial goods and manufacturing</strong></td>
<td>26%</td>
<td>34%</td>
<td>24%</td>
<td>13%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Biggest obstacles to raising innovation ROI**
- Risk-averse culture
- Lengthy development times
- Lack of coordination within the company

**Planned expansion into RDEs**
- 58 percent (all other industries = 46 percent)
- China and Eastern Europe

### Satisfaction with innovation ROI

<table>
<thead>
<tr>
<th>Industry</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other industries</strong></td>
<td>52%</td>
<td>24%</td>
<td>26%</td>
</tr>
<tr>
<td><strong>Industrial goods and manufacturing</strong></td>
<td>56%</td>
<td>26%</td>
<td>18%</td>
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</tbody>
</table>

**Pharmaceuticals, Biotechnology, and Health Care**

### Innovation as a strategic priority

<table>
<thead>
<tr>
<th>Industry</th>
<th>Top priority</th>
<th>Top-three priority</th>
<th>Top-ten priority</th>
<th>Not a priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other industries</strong></td>
<td>25%</td>
<td>39%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Pharma, biotech, and health care</strong></td>
<td>28%</td>
<td>42%</td>
<td>25%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Main innovation metrics used**
- Overall revenue growth
- Customer satisfaction
- Projected versus actual performance

**Source:** BCG 2009 Senior Executive Innovation Survey.
**Note:** Because of rounding, percentages may not add up to 100.

### Planned change in innovation spending

<table>
<thead>
<tr>
<th>Industry</th>
<th>&gt;10 percent</th>
<th>0 to 10 percent</th>
<th>No change</th>
<th>0 to −10 percent</th>
<th>&gt;−10 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other industries</strong></td>
<td>27%</td>
<td>31%</td>
<td>28%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Pharma, biotech, and health care</strong></td>
<td>25%</td>
<td>36%</td>
<td>27%</td>
<td>13%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Biggest obstacles to raising innovation ROI**
- Risk-averse culture
- Lengthy development times
- Lack of coordination within the company

**Planned expansion into RDEs**
- 47 percent (all other industries = 46 percent)
- China, India, and Eastern Europe
Retail

Innovation as a strategic priority

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Retail</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top priority</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td>Top-three priority</td>
<td>27</td>
<td>40</td>
</tr>
<tr>
<td>Top-ten priority</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>Not a priority</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

Main innovation metrics used
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Planned change in innovation spending

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Retail</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;10 percent</td>
<td>27</td>
<td>32</td>
</tr>
<tr>
<td>0 to 10 percent</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
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<td>9</td>
<td>11</td>
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<tr>
<td>0 to −10 percent</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>&gt;−10 percent</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Biggest obstacles to raising innovation ROI
- Inability to adequately measure performance
- Risk-averse culture
- Insufficient support from leadership and management

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Satisfaction with innovation ROI

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Retail</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>50</td>
</tr>
<tr>
<td>No</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Not sure</td>
<td>23</td>
<td>24</td>
</tr>
</tbody>
</table>

Planned expansion into RDEs
- 40 percent (all other industries = 46 percent)
- Eastern Europe and China

Technology and Telecommunications

Innovation as a strategic priority

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Technology and telecom</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top priority</td>
<td>24</td>
<td>31</td>
</tr>
<tr>
<td>Top-three priority</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>Top-ten priority</td>
<td>27</td>
<td>20</td>
</tr>
<tr>
<td>Not a priority</td>
<td>11</td>
<td>6</td>
</tr>
</tbody>
</table>

Main innovation metrics used
- Overall revenue growth
- Customer satisfaction
- Percentage of sales from new offerings

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Planned change in innovation spending

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Technology and telecom</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;10 percent</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>0 to 10 percent</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>No change</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>0 to −10 percent</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>&gt;−10 percent</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Biggest obstacles to raising innovation ROI
- Lengthy development times
- Risk-averse culture
- Difficulty selecting the right ideas to commercialize

Source: BCG 2009 Senior Executive Innovation Survey.
Note: Because of rounding, percentages may not add up to 100.

Satisfaction with innovation ROI

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Technology and telecom</th>
<th>All other industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>51</td>
<td>59</td>
</tr>
<tr>
<td>No</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Not sure</td>
<td>25</td>
<td>16</td>
</tr>
</tbody>
</table>

Planned expansion into RDEs
- 60 percent (all other industries = 46 percent)
- India and China
## Travel, Tourism, and Hospitality

**Innovation as a strategic priority**

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Top priority</th>
<th>Top-three priority</th>
<th>Top-ten priority</th>
<th>Not a priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other industries</td>
<td>25%</td>
<td>39%</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>Travel, tourism, and hospitality</td>
<td>15%</td>
<td>46%</td>
<td>33%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Main innovation metrics used**
- Customer satisfaction
- Overall revenue growth
- Percentage of sales from new offerings

**Planned change in innovation spending**

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>&gt;10 percent</th>
<th>0 to 10 percent</th>
<th>No change</th>
<th>0 to −10 percent</th>
<th>&gt;−10 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other industries</td>
<td>26%</td>
<td>32%</td>
<td>28%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Travel, tourism, and hospitality</td>
<td>26%</td>
<td>28%</td>
<td>26%</td>
<td>12%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Biggest obstacles to raising innovation ROI**
- Lengthy development times
- Lack of coordination within the company
- Insufficient support from leadership and management

**Satisfaction with innovation ROI**

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>All other industries</td>
<td>52%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Travel, tourism, and hospitality</td>
<td>49%</td>
<td>22%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Planned expansion into RDEs**
- 43 percent (all other industries = 46 percent)
- China and India

---

Source: BCG 2009 Senior Executive Innovation Survey.

Note: Because of rounding, percentages may not add up to 100.
For Further Reading

This survey is a part of BCG’s extensive work and research on innovation and the innovation-to-cash process. A sample of related publications includes the following:

**Measuring Innovation 2009: The Need for Action**
A BCG Senior Management Survey, April 2009

**Innovation 2008: Is the Tide Turning?**
A BCG Senior Management Survey, August 2008

**Measuring Innovation 2008: Squandered Opportunities**
A BCG Senior Management Survey, August 2008

**Tripling the Innovation Success Rate—with Less Effort**
Opportunities for Action in Industrial Goods, February 2008

**Payback: Reaping the Rewards of Innovation**
James P. Andrew and Harold L. Sirkin