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Foreword

Dear readers,
Interestingly, despite forces of competition impose firms to have greater innovation capabilities, our research has revealed that, across all industries, only a small minority of firms have excelled at all aspects of innovation management. Besides, several aspects of innovation are significantly overlooked. More interestingly, we see that those companies who focus on the generally overlooked aspects of innovation, experienced substantially higher than average growth rates. In other words, mainstream means of innovation are lucidly less effective. For this reason, we need to renew our understanding of innovation.

Undoubtedly, innovation has always been a vital business imperative. And today, the level of competition has already raised the bar to a very challenging level that the effective innovation became possible only by managing all the market uncertainties and technological subtleties with surgical precision. Additionally, new types and ways of innovation open new fronts of competition and increase market complexity.

One striking finding of our report is that only 7% of the respondents of our survey say that they systematically collaborate with external parties for each and every R&D and innovation project. Here, the remarkable finding is that this group of 7% had clearly a higher average growth rate than the rest. The particular strength of R&D collaboration is that it is a capability that converges 2 strong entry barriers: “network effects” and “experience curve”.

All in all, certain means of innovation are evidently less used, these are more rewarding and some of them such as collaboration for innovation offers effective means to defend competitive advantage. We hope that you will find our report invigorating.

Enjoy your read!

Ferruh Tunç
KPMG Turkey Chairman, Senior Partner
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Collaboration is central to success

Companies that systematically pursue collaboration opportunities have a significantly higher rate of commercially successful product launches and nearly twice as much revenue growth.

Building open innovation capabilities requires a complex transformation process

Despite the evidence to support emphasis on collaboration efforts, a well-functioning collaboration capability is enjoyed only by a minority of firms as it requires a complex cultural and operational transformation process.

Business model innovation offers significant opportunities in a world dominated with product innovations

Across all industries, the main focus of innovation is on developing products and enhancing the product development process. However, creating new sales channels, alternative revenue models and discovering new or unserved needs can be as impactful as innovating core functions and the product.

War for talent is ongoing

The challenge that companies observe most often in terms of innovation is rooted in the lack of people inside the company who have the right skills and experience.
Companies that implement innovation management processes and governance enjoy a higher rate of commercially successful product launches and have more of their revenue from products launched in the last 3 years. However, only 16% of companies use this approach in managing their innovation programme.

Time compliance in project schedule is a key challenge of development projects - with around 30% of projects being significantly behind the schedule. It is particularly critical as faster time to market can yield competitive advantage.

Collaboration for R&D purposes is high profile in business, but is still highly limited to business partners while collaboration with academia, start-ups and incubators is a lot less common. Different types of collaboration partners have different strengths and bring different types of capabilities and resources. For that reason, diversifying collaboration partners offers greater opportunities than sticking to one single type of partner.
About the survey

Respondents by countries

- Turkey: 44
- Poland: 27
- Sweden: 1
- Belgium: 61
- Austria
- Germany: 28
- Netherlands: 26
- Italy: 30
- Ireland: 11
- Switzerland: 1
- France: 6
- Portugal: 39
- UK: 14
About the survey

Respondents by sectors

Industrial Manufacturing: 46
Technology: 38
Financial Services: 25
Professional Services: 20
Automotive: 16
Infrastructure: 15
Transport & Logistics: 14
Life Sciences & Healthcare: 14
Government & Public Sector: 14
Chemicals: 13
Energy: 12
Food, Drink & Consumer Goods: 11
Telecommunications: 10
Retail: 9
Media: 8
Banking: 6
Investment Management: 5
Real Estate: 4
Capital Markets: 3
Research Institute: 2
Education/Trainings: 1
Building & Construction: 1

Respondents by company revenue

10,1 billion USD and above: 7%
5,1-10 billion USD: 3%
1-5 billion USD: 18%
501-750 million USD: 7%
501-750 million USD: 8%
251-500 million USD: 11%
0-250 million USD: 46%
How is innovation management structured?

A well-planned strategy and a structured process is critical to increased return on innovation. Innovation is a complex process that include significant uncertainties; ensuring effectiveness is challenging yet necessary to measure performance.

Research has shown that product development projects mostly suffer from delays than budget compliance or quality of conformance issues. This is an interesting finding as we see that time to market is becoming more and more critical in attaining commercial goals of new products.

Idea management and innovation strategies are common across all industries, however innovation budgeting, innovation funnel and innovation board are less common. Moreover, only 16% of the respondents apply effective methods and practices such as idea management, innovation strategy, innovation budgeting, innovation funnel and innovation board simultaneously.
Large established organisations perform well in R&D projects, but struggle to keep up pace with more agile, smaller organisations.

The research indicates that mature organisations consider themselves efficient in management of “traditional” R&D projects. This is due to organisation maturity level, financial and know-how resources, risk management and previous experience.

On the other hand, large organisations are less likely to develop disruptive and game-changing innovation and in several cases are outperformed in this field by younger organisations that are faster in their decision-making and seeking potential customer needs that may be addressed.

KPMG viewpoint

The majority of respondents say their organisations are successful in managing product development projects in terms of budget compliance and initial product specification compliance (3/4th of projects observed above 50% budget and product specification compliance).

The research shows that time compliance is a key challenge of development projects - with around 30% of projects being significantly behind the schedule.

Survey results

100% of projects are successful
75% of projects are successful
50% of projects are successful
25% of projects are successful
No opinion

Timeline compliance
Budget compliance
Initial product specification compliance

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Effective introduction of new technologies and innovative solutions requires a well-structured strategic approach. Matured corporations have already developed innovation strategy that defines clearly what type of innovations are necessary, how innovative ideas are sourced, developed and eventually commercialized, with metrics to evaluate efficiency of innovation management.

Many corporations are aware that they need to seek creative ideas externally. Therefore, the concept of Corporate Venture Capital (CVC) is gaining more and more interest. CVC is recognized as an efficient vehicle for both building value, and developing innovative products, services, solutions that then help a corporation in generating new revenue streams, building up competitive market position, and cost reduction. KPMG analysis shows that over 30% of projects worldwide are financed by CVCs today.
Idea through to Implementation - the mechanisms of success

KPMG viewpoint

Big businesses often struggle to innovate. Many are culturally structured to support turning ideas into valuable business propositions, particularly those ideas that are disruptive and “game-changing”.

The analysis indicates a trend to enrich corporate innovation ecosystems with external resources, that brings to the organisation fresh innovative ideas and solutions.

The research shows that organisations with open innovation approach perform better in innovation development and commercialization.

Survey results

Nearly 2/3 of respondents confirmed that their organisations have established Idea Management and Innovation Strategy.

Innovation budgeting, innovation funnel and innovation board are elements of innovation management that are under-utilised approaches across main industry groups.

The percentage of respondents who apply all 5 aspects of innovation management simultaneously is only 16%.
Development of an innovation ecosystem; where to start?

The components of an effective ecosystem supporting innovation management

- Set your innovation goals by developing **Innovation Strategy** aligned with the corporate strategy
- Define which areas of **Innovation Sourcing** will be the most effective to achieve your strategic goals
- Ensure internal and external **Financing** for innovation projects, taking advantage of available grants and supports
- Define process of **Innovation Management**
- Develop a more innovative **Organisational Culture**
Areas of Innovation sourcing makes more sense

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Innovation</td>
<td>Acquiring innovation (licensing of products / innovative solutions) from external parties.</td>
</tr>
<tr>
<td>Internal Innovation</td>
<td>A natural source of ideas and potential innovation is within the organisation itself - inviting employees to creative and participate in the development of creative solutions.</td>
</tr>
<tr>
<td>Collaboration with external partners</td>
<td>Collaboration with other external parties (R&amp;D centers and other enterprises) with specific resources and competencies targeted to create new solutions.</td>
</tr>
<tr>
<td>Internal incubation of innovation</td>
<td>Establishing a purpose-built environment and infrastructure, that will support the development of innovative projects often within a dedicated incubator, specifically at an early stage of development.</td>
</tr>
<tr>
<td>Crowdsourcing Innovation</td>
<td>Building an internal and/or external community to search and assess new ideas and solutions.</td>
</tr>
<tr>
<td>Corporate Fund Venture Capital</td>
<td>Setting up a Corporate Venture Capital Fund as a separate entity, that invests in innovative companies to create new products and services on the which, which can be used to implement innovation in the organisation.</td>
</tr>
<tr>
<td>External Venture Capital Fund</td>
<td>Co-funding a Corporate Venture Capital Fund with caveats to ensure priority on those investments which have a strong strategic fit with the organisation.</td>
</tr>
</tbody>
</table>
Importance of Collaboration

Why collaboration is needed

Increasing demand granularity and shortening product life cycles impose a heavier innovation load on companies. As product portfolios need to be expanded further and market demands new products more often, R&D and innovation require more resources and risk exposure. To address this challenge, collaboration for R&D and innovation emerges as a strategic capability.

Survey revealed that companies systematically pursuing collaboration opportunities have a significantly higher rate of commercially successful product launches and nearly twice as much revenue growth. However, only 7% of companies are taking this approach to collaboration in respect of innovation and R&D efforts.

The responses show that most collaboration activity is happening with business partners - there is a notable gap between this group and the academia group. This implies that research collaboration for the purposes of R&D is not an agenda item for many firms.
Collaboration accelerates growth

Our research provides evidence that companies that systematically collaborate for R&D and innovation grow faster and obtain commercial targets of new products at a higher hit rate. Despite this evidence to support a greater emphasis on collaboration, it is only pursued by a minority of firms. Perhaps the main reason is that it requires a complex cultural and operational transformation process.

A conventional R&D organisation is structured on the assumption that all the R&D and innovation activities to be conducted in-house. Hence for many firms, collaborating with external parties requires re-organisation and adding new processes for addressing new functional requirements.

In order to fully leverage collaboration activities, partners need to evaluate compatibility, align objectives and invest adequate time and resources. Because effective collaboration relies on compatibility and alignment among partners, and both of these require mutually investing time and resources to excel.

KPMG viewpoint

Our research provides evidence that companies that systematically collaborate for R&D and innovation grow faster and obtain commercial targets of new products at a higher hit rate. Despite this evidence to support a greater emphasis on collaboration, it is only pursued by a minority of firms. Perhaps the main reason is that it requires a complex cultural and operational transformation process.

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In order to fully leverage collaboration activities, partners need to evaluate compatibility, align objectives and invest adequate time and resources. Because effective collaboration relies on compatibility and alignment among partners, and both of these require mutually investing time and resources to excel.

The survey results indicate companies that systematically pursue collaboration opportunities have a significantly higher rate of commercially successful products and nearly twice as much revenue growth. Only 7% of survey respondents systematically collaborate with external parties for every R&D and innovation project, 44% collaborate on an ad-hoc basis and 49% do not collaborate at all.

Survey results

The survey results indicate companies that systematically pursue collaboration opportunities have a significantly higher rate of commercially successful products and nearly twice as much revenue growth. Only 7% of survey respondents systematically collaborate with external parties for every R&D and innovation project, 44% collaborate on an ad-hoc basis and 49% do not collaborate at all.
Diversifying collaboration partners

Types of Collaboration Partners

![Bar chart showing the distribution of collaboration partners.]

Survey results

The survey shows that 91% of respondents collaborate with their business partners, and 33% of the respondents systematically collaborate with business partners for every R&D and innovation project.

KPMG viewpoint

Different types of collaboration partners have different strengths and bring different types of capabilities and resources. For that reason, diversifying collaboration partners offers opportunities that cannot be tapped by sticking to one single type of partner.

For example, university research departments are structured to produce excellence in scientific research - an attractive proposition for private sector who may not have capability in-house. In turn, private sector innovation is largely based on commercialisation and have the skills and resources needed to monetise the results of academic research.

In such cases, the long-term objectives of the firm and university should be aligned, supported by a flexible governance structure.
Strong collaboration capabilities requires complex operational and cultural transformation to optimise returns

Collaboration in R&D and innovation is a strategic capability that enhances financial results. It can also reduce risk exposure and financial burden, if there is a strong synergy between partners.

Synergy among partners relies on a myriad of fundamental success factors. Building a network of well-diversified and aligned portfolio of partnerships is the first step to harness the power of collaboration. Creating to right synergy between collaboration partners relies in reinforcing capabilities, if not complementary and the strategic terms of the engagement must be settled at the very beginning. In general, good complementaries are characterised as being distinct. For instance, research institutions are research focused, not profit oriented and pursue the goals for the long term; whereas private companies are usually the opposite.

In parallel, excelling at collaboration and finding other partners who are equally driven to excel is a critical factor. This is due to the fact that each partner’s capabilities create externalities on others. Moreover, the traditional R&D organisation structure is based on the assumption that all the activities are to be conducted in-house and can lack the right external interface touchpoints and the right experience and skills to manage external interface with partners.
Focus of Innovation

Where do companies focus their innovation efforts, how do they finance it and what are their challenges?

The majority of companies across all industries focus on innovating products and product development processes. The majority manage and finance innovation-oriented projects internally, and often suffer from a common challenge: lack of human resources with required innovation management skills and experience.

Around 70% of all companies primarily focus their innovation efforts on their products and product development processes. One third of all companies primarily focus on IT departments, reflecting the relevance of new IT enterprise platforms, software and solutions. Sectors such as Transport & Logistics, or Financial Services, who are facing increasingly high competition or cost pressure, show more diversified innovation efforts than other sectors. In terms of managing and financing innovation-oriented projects, companies primarily rely on internal resources compared to pursuing collaboration opportunities. However, certain sectors, such as automotive sector, are starting to work with external partners to offer innovative technologies and services. By contrast, investments in external funds or incubators are less-common collaboration partners. When companies struggle with innovation, it is rarely due to lack of innovative ideas or insufficient funding. In fact, the most common challenge across all sectors is the scarcity of people who have relevant skills and experience to manage innovation. The lack of a structured commercialization process is the second most common issue.
Business model innovation offers significant opportunities in a world dominated with product innovations

Where does innovation focus on?

Survey results

Across all industries, the main focus of innovation is on developing products and enhancing the product development process.

More than a third of all companies place their innovation focus on IT and marketing, and sales whereas procurement & supply chain management, HR, and administration are less-common focus areas.

KPMG viewpoint

It is no surprise that product development is ranked top of the list for focus areas of innovation. However, it is a surprise that marketing and especially sales have ranked proportionally much lower as a focus point. Today, innovation in activities such as creating new sales channels, alternative revenue models and discovering new or underserved needs can be as effective as innovating core functions and the product. Innovating the business model is not only necessary but also an opportunity in a world dominated with product innovations.

Notably, 37% of all organisations put focus on innovations in IT - reflecting the importance of today’s technological trends such as cloud computing and internet of things.

Innovations in other areas such as Procurement & Supply Chain Management, HR, and Administration are not typically in focus, but this varies depending on the industry.
Innovation financing requires diversification

% of companies that manage and finance innovation-oriented projects via the respective measures

Survey results

Almost half of all companies form collaborations with external partners. Investment in Corporate Venture Capital (CVC) or other external funds and incubators are less common methods for managing and financing innovation-oriented projects.

KPMG viewpoint

Companies can either consider organic (internal) and inorganic (external) strategies to manage and finance innovation-oriented projects, and there seems to be a distinct preference for the former over the latter.

Respondents showed a higher preference in pursuing the organic strategy to manage and finance innovations inside their companies (e.g. R&D centers, digital units, internal innovation labs). However, companies should utilize competitions and grants for employees more frequently to leverage organic sources of innovation. The structure should be designed in such a way to overcome departmental silo-thinking and utilise the expertise of your employees. Connecting people to create ideas not only delivers innovation outputs, it also creates better support for the delivery of the project. Successful completion of an innovation challenge rewards employees and the organisation for further development and implementation.
The future will be shaped by those that innovate today

Pressure to innovate will increase in nearly all sectors due to a number of reasons: technology advances, new disruptive business models, increasing cost pressures, shorter product lifecycles, changing customer needs and new entrants.

While greater pressure may threaten current business model, it also creates short-term and long-term opportunities for those companies that embrace change. Understanding the impact of change on a company’s business model at all levels, including products, services, channels and clients, and developing a business strategy are the first steps. It is helpful to look at this through the lens of “Megatrends” such as continuing digitalization, increasing individualization or climate change. This encourages focus beyond incremental, innovation to more strategic, market shaping innovation.

Building up in-house R&D activities, innovation skills and getting the organisation to buy into innovative competences, for example by acquiring start-ups, represent subsequent steps in the process.

Innovation can be established through new partnership, alliances, and joint ventures can be formed to build competitive advantage against peers and new competitors. With this, speed is a substantial factor in processes to ensure competitive advantage is retained.

Companies that allocate sufficient resources for a flexible and dynamic innovation and investment culture have the highest chance to secure long-term business success.
Create the case for innovation: How much innovation will you need to meet growth targets of the future?

Across all industries, companies are struggling to keep up with the pace of digitalization. Profits from traditional business models are shrinking, while new competitors with disruptive new ideas and practices enter the markets in nearly all sectors. Companies must accept the fact that their environments are changing and ask themselves one question: How much innovation will we need to meet our future growth targets and how are we going to do it?

We suggest start by analysing your customers and their requirements. Identify two to four opportunity areas of unmet customer needs that provide room for innovation. This could be an extension of service offerings or an increase in customer loyalty. Cross-industry thinking is also in demand. In a digital and networked world, there is often an overlap of previously separate sectors: products and services come together, integrated solutions are in demand, old value chains break up - this is known in the industry as ‘vertical’ innovation. Setting-up a continuous process to routinely scan the horizon in order to be proactive in meeting new customer demands or potential competitive threats from start-ups or other disrupters outside the industry is crucial.

For investment in, and management of, innovation projects, companies should create an innovation committee using venture capitalist approaches. Hire professionals that have venture capital experience or are former founders. For the innovation team itself it is critical that it is distinct from the core business organisation. In times of shifting customer needs and declining profits, companies that think out-of-the-box and successfully adapt to a changing business landscape will achieve their growth targets.
Lack of people inside organisation who have skills to manage innovation is the most observed challenge

% of companies across all industries on how they experience the six common challenges related to innovation

<table>
<thead>
<tr>
<th>Challenge</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
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<tbody>
<tr>
<td>Lack of innovative ideas</td>
<td>3%</td>
<td>37%</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Company culture not adequately supporting innovations</td>
<td>12%</td>
<td>32%</td>
<td></td>
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<tr>
<td>Insufficient funding</td>
<td>12%</td>
<td>32%</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>Lack of internal processes to stimulate and manage innovations</td>
<td>9%</td>
<td>47%</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Lack of experience and structured approach for commercialization of innovations</td>
<td>14%</td>
<td>43%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of people inside company who have skills to manage innovation</td>
<td>11%</td>
<td>53%</td>
<td></td>
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</table>

Survey results

The survey results indicate that each of the six common challenges that companies face in terms of innovation relate to companies across all industries. The most common challenge is the lack of people inside the organisation who have the skills to manage innovation, followed by the challenge of lack of experience and having a structured approach to commercialise. On the other hand, company culture is ranked is the least common challenge.

KPMG viewpoint

The most common challenge that companies observe most often in terms of innovation are rooted in a lack of people inside the company who have skills to manage innovation.

Partnerships e.g. with academics or other third parties are a critical success factor, but they need to have the right structures, models and infrastructure to create added-value.

Further initiatives that companies can undertake to increase the number of skilled people to manage innovation can be recruitment of qualified employees, conducting training focused on innovation process skills, developing innovation hubs, or having employees fully dedicated to innovation. For this, a focus on the right mix of capabilities, capacity and capital to sustainably drive innovation is crucial.
What we don’t know, we fear

% of firms that plan to implement emerging technologies

Survey results

When asking companies which technologies they plan to implement in the next few years it is clear that Big Data and Cloud Computing are high on their agendas. Over 30% of companies were working with Big Data in 2015 whilst over 40% are also focused on Cloud Computing. On the other end of the spectrum, over 70% of companies are not considering the use of Nanotechnology, Artificial intelligence or Mind-machine Interface in their business, although more emphasis in these areas is planned in future. Internet of Things currently is and will remain important - technology companies are already investing in IoT while players in the Financial services, Industrial Manufacturing, Food and Retail sector also predict an increasing use of IoT to connect devices with each other and link them to the cloud.

While insights into emerging technologies were largely homogeneous across Europe, there were clear differences when comparing. Older and younger companies. Older companies with over 20 years experience are focused on Robotics and 3D printing, while younger companies are investigating opportunities in Cloud computing and Artificial Intelligence.

KPMG viewpoint

The survey results show a clear evolution in the use of Big Data. Companies have spent years implementing IT systems and collecting data and are now focussing on the use of this historic data in order to improve their current ways of working and to better understand their assets and customers. To gather, analyse and store massive amounts of data companies are no longer investing in private servers but are using cloud applications which provide greater flexibility.

3D printing on the other hand has yet to live up to the hype as only a small percentage of companies have implemented or plan to implement this technology.

Other technologies such as virtual reality and artificial intelligence are still in their early development phase but we predict a steep increase in interest as soon as these technologies show their potential to the business.
Getting a balanced approach to innovation is fundamental, but deciding the proportion and focus of innovation can be a bit like looking into a crystal ball, trying to predict the future. With innovation sitting high on corporate agenda in recent years, we look at the strategic approaches many corporates are using to manage their innovation efforts in the short, medium and long-term.

Despite common mind-set that innovation is a mechanism for cost-saving through efficiency and technology enhancements, innovation specialists throughout Europe are prioritising top-line growth over cost reduction in terms of a strategy or direction for innovation, mainly through ‘incremental’ innovations, with a considerable proportion working in on ‘breakthrough’ innovation which will impact their business model and customers.

Innovation orientation is often misunderstood - many corporates will refer to their products and services as ‘innovative’, but how do these innovations actually fit in with the strategic direction and approach to innovation within the company? In this section, we will examine the mind-set of companies when it comes to their innovation road-map - whether they view innovation as a cost-saving mechanism or a catalyst for new top-line revenue; how far ahead are companies planning their scope for innovation; if companies are focusing on the long-term gains or the short-term wins from their efforts and what is driving the majority of companies to innovate.
Market need is the core driver of innovation approach, but new technologies have a significant influence

**What drives innovation?**

- Non opinion: 5.5%
- Fully disagree: 0.3%
- Disagree: 10.7%
- Neither agree nor disagree: 20.7%
- Agree: 33.5%
- Fully agree: 40.4%

**Survey results**

The majority of innovation specialists clearly appreciate both the market and technology opportunities when it comes to their approach to innovation; however it is clear that market need is seen as core to the innovation approach for almost all companies with only 2% indicating that technology was the only key driver of innovation at their company against 16% pointing to market need as the sole reason to innovate. 35% indicated both market and technology as drivers of their approach to innovation, while 11% were unsure or shared no opinion. Interestingly, 6% disagreed that their approach to innovation was driven by new market need or new technology, indicating other core factors are incentivising companies to invest in innovation.

**KPMG viewpoint**

The survey results show that while addressing market need and introducing new technologies are viewed as the main reason for companies to innovate, there are other incentives driving the respondents.

There is likely to be a range of specific reasons - driving new revenue through business development; efficiencies through process and technology; responses to disruptive competitors; leveraging operations and assets to create innovative value propositions to a range of stakeholders - these could all be factors.

It may surprise some that technology is not the core driver amongst the majority of responses. It may be explained by the surge in changing consumer and market behaviour due to mobile and digital offerings causing a shift in focus since the technology-led boom in the period from early 1980- late 2000.
Market-need steering direction

The surge in mobile technologies has provided consumers with a personal computer in their pocket - this has transformed ‘business as usual’ for nearly every company and all in the space of a few years. The result is a complete shift in consumer expectations - ‘always on’, ‘on demand’, ‘at your finger-tips’ spring to mind when we think about present day expectations. Millennials have grown up with this as their baseline and rank loyalty as a much lower priority - they are always ready to jump on the latest trend. It is likely this pressure to keep ahead of the millennial game that drives companies to find unmet needs, with technology as the vehicle to deliver.

This may not be experienced directly by all sectors or businesses evenly, but its ripple effects have undeniably changed the way we conduct and operate business hence the emphasis on market-led approaches over the past decade. This is particularly evident in advising the start-up sector - ensuring that the founders have discovered an uncovered and desirable market need being central to the recipe for success. Innovation has its cycles however, and new disruptive technologies are looming on the horizon with the potential to transform business operations in an unprecedented way - cognitive, VR, autonomous vehicles and 3D printing are just some of the terms our sectors at all level will need to plan and prepare for.
Innovation is focused on revenue growth, not efficiencies

Which best defines your innovation efforts?

- Improve products and services: 30%
- Enhance efficiency and effectiveness of operations: 20%
- Discover unmet customer needs or underserved segments: 19%
- Differentiate products or services: 19%
- Develop new sales channels revenue models: 12%

Where does innovation efforts targeted to?

- Top line growth: 56%
- Cost reduction: 22%

Survey results

Most companies are looking to improve their products or services (30%); followed by efforts to increase efficiency (19%), differentiate products or services (19%) and discover unmet customer needs (19%) in equal measure - the latter suggesting movement towards focusing their efforts on ‘breakthrough’ innovations along with the 12% of respondents who outlined their intention to explore new sales channels and revenue models. Only 1% of companies shared no opinion on the focus of their innovation efforts. Improving products and services was the predominant response among companies over 20 years in business, while differentiation is the prime focus of younger businesses followed by an evenly balanced emphasis in relation to efficiencies, improvements, new revenue streams and unmet customer needs.

Top-line growth is the priority for innovation both in ‘Incremental’ and ‘Breakthrough’ innovation categories, but particularly in ‘Breakthrough’ which is viewed as more long-term, while ‘cost reduction’ is a significant priority for many companies in the short to medium term.

KPMG viewpoint

The survey results show that revenue growth is at the forefront as the key objective of innovation investment and projects. Efficiency is still a key factor, but perhaps less of an extent considered in the past.

Differentiation of offering and discovering new markets rank equally against operational efficiencies, linking traditional strategic approaches and their continuing relevance to innovation.

At the lower proportion of responses (but still a considerable number) describe a more long-term vision around building new sales channels and revenue models - this could be as a result of many drivers in relation to competition, profit, regulation, but also new creative opportunities identified as a result of innovation management within their company. It is interesting to note that nearly all respondents shared their innovation efforts, suggesting that all recognise the importance of innovation.
Focusing innovation on emerging demand pays off the most

Innovation Focus and Sales Growth as Cumulative Average Growth Rate for Last 3 Years

<table>
<thead>
<tr>
<th>Innovation Focus</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discover unmet customer needs or underserved segments</td>
<td>10.4%</td>
</tr>
<tr>
<td>Develop new sales channels and revenue models</td>
<td>8.9%</td>
</tr>
<tr>
<td>Differentiate products or services</td>
<td>6.7%</td>
</tr>
<tr>
<td>Improve products and services</td>
<td>4.3%</td>
</tr>
<tr>
<td>Exchange efficiency and effectiveness of operations</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Survey results

Survey has shown that the companies that primarily focus their innovation efforts on finding and exploitating unmet customer needs have experienced the highest growth rate. This group has, on average, cumulative average growth rate of 10.4% in the last 3 years.

In terms of growth rate, this group is followed by companies that sought developing new sales channels and revenue models. The companies that focus innovation efforts on operational efficiency have the smallest growth rate for the last 3 years.

KPMG viewpoint

Focusing innovation efforts on searching for and serving to unmet customer needs is a way that inherently leading to uncontested markets. It is no surprise that companies primarily focus on harvesting new demand enjoy the highest growth rate.

In a similar way, innovating the business model via developing new sales channels and revenue models offers better growth prospects. As our research also revealed, majority of firms focus their innovation efforts on the product, and the business model innovation is less common.

Mature or declining markets often force companies to compete on efficiency and impose a survival context. The most general response to this kind of context is to focus innovation efforts on improving the bottom line. However, an open minded approach can deny conditions imposed by a stagnating market. Opportunities in adjacent markets can offer new growth potential. Also, mature markets are much more susceptible for disruption. Hence, emerging technologies can offer disruptive solutions.
Creating and Growing New Revenue

Before the widespread use of social and smart mobile devices in recent years, innovation was largely associated with cutting cost, particularly with the emergence of Lean methodologies as a driver for efficiency and providing a vehicle for operational transformation. It’s clear that the appetite for new technologies and/or applications (be it pharma, food, utilities or services) is growing and providing opportunities to gain market share rapidly within the existing industry and, increasingly, entering into new markets or diverge into other industries. 99% of respondents are actively looking to innovate through incremental change or breakthrough transformation - an overwhelming number highlighting innovation as a strategic priority.

Companies may also bolster their innovation efforts through collaboration, partnerships and acquisitions - this is aligned to strong M&A activity in Ireland and abroad. We also see increasing interest and investment in the start-up communality to act as the creative, agile, low-risk catalysts for innovation and produce a new wave of propositions and IP. These new propositions are in response to new consumer values and changing behaviours led by the Millennial generation and gradual adoption across other generations. Opportunities for revenue growth can be predicted with the help of trend-watching, but should be supplemented by portfolio management to help identify returns and keep the current pipeline relevant throughout the technical innovation cycles.”
Long term orientation of R&D and innovation

Distribution of respondents according to the most distant future for which they are currently planning a product launch

Survey results
Towards the end of 2015 when this study was conducted, a considerable proportion of respondents (8%) were planning product launches - this may be consistent with higher consumer activity in November and December periods. The majority of participants indicated that they intend to launch a new product in the next 4 years up to 2020 - the bulk of these (29%) in the next 12 months, 20% in 2017 and 14% in 2018. The response dips in 2019 at 5% before rising to 15% for 2020 and beyond. 3% of respondents shared no opinion and 6% indicated they had no ongoing project that would result in a future product launch.

KPMG viewpoint
The survey results show that the vast majority of respondents have an innovation road-map outlining new product launches in the coming years; this is aligned overall with our expectations when mapped against our question regarding the description of their innovation efforts, being either ‘incremental’ or ‘breakthrough’. We expect that most companies will be more certain about their pipeline launches for the next 2 to 3 years, with less certainty thereafter. We also expected that the majority of responses would be categorised as ‘incremental’ in the short-term.

There is a significant proportion of companies investing efforts in ‘breakthrough’ innovations, the majority of which are to be launched either in 2016 or in 2020 and beyond. This suggests that perhaps some companies are coming to the end of their ‘innovation cycle’, while others are at the earlier stage of the cycle. Surprisingly, a number of respondents outline that they have no ongoing projects, yet indicate their efforts are centred on ‘incremental’ innovation - it may be that these aren’t classified as innovation projects, but perhaps marketing/sales led product launches that are deemed to be ‘innovative’.
Balancing long vs. short term

Optimizing an R&D and innovation portfolio’s long term versus short term balance is highly context dependent and involves a complex range of variables that will be unique to each portfolio being managed. However, there are some fundamental principles that should be complied.

First of all, the product’s life cycle length from ideation to retirement governs this balance. For some industries, long term orientation is a essential due to long development phases experienced in the complex industrial goods and defence industry, as well as in research intense industries such as pharmaceuticals and advanced materials.

The second principle focuses on the portfolio composition. If there are emerging technologies or scientific inventions that offer possibilities to dramatically change the product architecture or bring opportunities to significantly enhance technical features, it is advisable to increase breakthrough and disruptive leads in the portfolio in parallel with these developments. Having more breakthrough and disruptive leads in the portfolio will most likely require longer terms of investment.

The third principle centers on strategic choice: follow or lead. In general, being first to introduce an innovation has many advantages. But a solid strategic case is needed to build entry barriers to deter followers and a technology roadmap is required to devise a plan for keeping the technical superiority over the immediate follower.
Over the years everyone has claimed that they innovate, but the results of innovation efforts hugely differ. Some reap over 10% of their revenue share with new products and launch commercially successful products year in year out. But how do they do this? What do they claim to have in place?

From the data we separate the “good” from the “bad” innovators by looking at their financial returns claimed by innovation: the percentage of revenue by new products and the amount of new products that are successfully launched. This separation leads to insights on how these “good” innovators manage innovation. We see that “good” innovators are more likely to have an innovation strategy, funnel management and idea management in place. Their innovation is supported by budget, leadership commitment and their employees. This confirms our belief in that “good” innovators organise for innovation; innovation needs creativity, but also structure.
“Good” vs. “bad” innovators

Percentage of new products that is considered commercially successful

- 0% to 30% (“bad” innovators)
- 30% to 65% (“average” innovators)
- 65% to 100% (“good” innovators)

Revenue share of new products (i.e. products not older than three years)

- 0% to 5% (“bad” innovators)
- 5% to 10% (“average” innovators)
- above 10% (“good” innovators)

Survey results

When we look at the percentage of new products that is considered commercially successful we see an almost even spread in the percentages.

However, in relation to revenue share of new products (also an indicator of innovation success) this changes to 77% of innovators claiming that their revenue share of new products is higher than 10%.

KPMG viewpoint

The percentage of commercially successful new products and revenue share of new products, in our view, are the main (quantitative) indicators of innovation success and therefore what separates a good from a bad innovator. In the data, this definition is shown: good innovators have 65-100% new products that are commercially successful and have >10% revenue share of new products. This distinction will lead to a further discussion on what separates these “good” innovators from the “bad” and “average” innovators.

However, we must state that the revenue share of new products is highly dependent on the industry as some industries (like FMCG) have more product introductions than for example the oil industry.

Therefore it should also be emphasized that the criteria of being a “good” innovator, should cover more than just financial metrics.
Innovation capabilities of “good” innovators

**Innovation management capabilities “good” vs “bad” innovators**

<table>
<thead>
<tr>
<th>Category</th>
<th>“Bad” innovators</th>
<th>“Good” innovators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees involved in innovation</td>
<td>18%</td>
<td>41%</td>
</tr>
<tr>
<td>Percentage of revenue spent on innovation</td>
<td>39%</td>
<td>45%</td>
</tr>
<tr>
<td>Often innovation meetings (i.e. weekly, monthly or quarterly)</td>
<td>23%</td>
<td>45%</td>
</tr>
<tr>
<td>Innovation budgeting</td>
<td>23%</td>
<td>45%</td>
</tr>
<tr>
<td>Idea management</td>
<td>25%</td>
<td>57%</td>
</tr>
<tr>
<td>Innovation funnel</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Highest person responsible (boardmember or c-level)</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>Innovation strategy</td>
<td>45%</td>
<td>57%</td>
</tr>
<tr>
<td>Innovation board</td>
<td>46%</td>
<td>58%</td>
</tr>
</tbody>
</table>

**Survey results**

When defining “good” innovators as companies that develop new product and services which are commercially successful and have a share of more than 10% in the total revenue, it is interesting to see what good innovators have in common. Using this definition we look at the characteristics of “good” and “bad” innovators.

“Good” innovators have innovation management in place as we see that they have:
- an innovation strategy to guide their innovation
- a board supervising the innovation efforts
- the responsibility for innovation is on board or c-level
- an innovation budget in place and this is more than 2% of revenues.

“Bad” innovators score lower on all defined innovation management aspects. It can be said that having innovation management in place could lead to more successful innovation, as we see that “good” innovators claim to have these aspects in place approximately two times more than “bad” innovators. Two factors stand out, first a large part of all respondents (71%) spend more than 2% of their revenue on innovation and secondly, 42% of all respondents have indicated that 5% or more of their employees are involved in innovation.

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**KPMG viewpoint**

This survey illustrates that there is a positive relation between “good” innovators and having innovation management in place. Nevertheless, it is difficult to identify causal relations between the aspects of innovation management (such as strategy and funnel) and innovation success.

All the elements that the “good” innovators mention are part of KPMG’s view on what should be in place for effective innovation management. At our clients we describe the critical elements as:

- innovation strategy
- portfolio management (e.g. budgeting and funnel management)
- innovation process (e.g. idea management)
- culture and organisation (e.g. governance and involving the rest of the company in innovation)

It is no surprise that the “good” innovators describe that they have these elements in place as we see that organising for innovation is key in getting the most out of your innovation efforts.
Creating and growing new revenue

Innovation management is what sets apart “good” from “bad” innovators

Good innovators are those that have organised themselves for innovation. An innovation genie is not enough. Good innovators manage their innovation efforts as a main function of their company. They focus their innovation by setting up an innovation strategy that defines the domains on which they focus and set their innovation goals specifically. They have a well-defined innovation process in place that guides their innovation from the idea stage to market launch. Good innovators’ get their innovation efforts supported by an innovation budget and sponsored by C-level.

Innovation is not an activity limited by the boundaries of an innovation department, but many others in the company take part in innovation processes collectively. All this leads to a higher rate of commercially successful products and a higher share of revenue by new products.
Notes:
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