

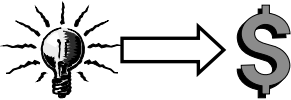
MDM Innovation 101

Modern Distribution Management

Tele-seminar

Jan. 26, 2006

For Wholesale Distributors



Ideas to cash

PRE-PRESENTATION WARM-UPS (1) *MCG*

1. Our future is here, just unevenly distributed.
2. Humans prefer to work with growing, enabling firms.
3. Firms that grow stakeholder wealth faster, get richer.
4. You can't buy a competitive edge; you must create it.
5. Continuous innovation fuels continuous profit growth.
6. Continuous innovation, by design, requires systems.
7. Innovation management systems touch all business aspects.

2

WARM-UPS (2): INNOVATION MGT. PREDICTIONS FOR 2010 *MCG*

- Thriving firms will have formal, embedded innovation management (IM) systems. . .
- And have an innovation manager (as for HR & Finance)
- Firms will consistently attempt to make rule breaking innovations (+) pursuing more, incremental, reactive-and-proactive adaptations

3

WARM-UPS (2): INNOVATION MGT. PREDICTIONS FOR 2010 *MCG*

- 50% (+) of innovation capacity will be from outside the firm
- The IM revolution is caused & enabled by the networked, creative economy (Google effects)
- This will not be a fad or dot-com bubble

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WARM-UPS (3): FUN FACTS (1) *MCG*

1. P&G used outside technology to pioneer "whitestrips" - a breakthrough, successful product. Within 12 months, however, there were over 100 competitive, teeth-strip clones & varied products.
2. Global, micro-manufacturers (with 1 - 5 employees in the US) are designing, manufacturing, selling & distributing their products all over the US. So what?

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WARM UP THOUGHTS: (3) *MCG*

3. The exponentially growing & compounding factors for:
 - computing power
 - connecting possibilities via the net
 - bandwidth
 - digital storage capacity
 will continue as their costs also drop exponentially.


How do these affect: competition, creative problem solving, business outsourcing, business start-up costs, etc.?

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AGENDA	MCG
I. The IM imperative	
A. The creative economy effects	
B. Shared - definitions, processes & case study	
C. Discussion after 30" (30 + 15 = 45)	
II. First steps for our IM journey	
A. Answers to common concerns	
B. CORE team agenda items	
C. Specific, how-to-for-WDs, steps to take	
D. Discussion after 30"	
7	

QUESTIONS TO EXPLORE	MCG
1. What is the "creative economy"?	
2. Is it real?	
3. Who's leading the way?	
4. What's "innovation management"?	
5. How are the best doing it?	
6. How do we learn more?	
7. What should my firm start doing?	
8	

I. A
The Creative Economy Raises Stakes & Opportunities
<ul style="list-style-type: none"> • Messages from: Starbucks, Ipod, Google • Hyper-competition + "Web 2.0" = The creative, networked economy" • Our innovation gap, goal (+ metrics)?

INNOVATE UP "EXPERIENCE CHAIN"	MCG
<u>Coffee:</u>	
1. By the wholesale bag	1 - 2¢/cup
2. By branded retail bag	5 - 25¢/cup
3. Served retail	75¢ - \$1.50
4. Starbucks experience	\$2 - \$5
	
10	

IPOD: 7 CHANGE LEVERS	MCG
<u>Type</u>	
1. Business model	negotiated more licensing solution
2. Alliances	with music publishers & accessory producers
5. Performance	Line of hardware
6. Product system	Hardware + software + itunes + stores
8. Channel	Breakthrough deal to sell music online
9. Brand	Bolstered Apple's image
10. Customer exp.	iPod is cooler & more expensive than MP3
11	


TEN TYPES OF INNOVATION* (1)	MCG	
<u>Type</u>	<u>Description</u>	<u>Example</u>
1. Business model	How you make \$	Dell's working capital
2. Alliances	Synergize w/others	Sara Lee outsourcing
3. Enabling process	Premium compensation	Nucor, Costco's, UPS, FedEx, Starbucks
4. Core processes	Add value	Wal-Mart; Nike & Cisco
*www.doblin.com		12

TEN TYPES OF INNOVATION* (2)

Type	Description	Example
5. Product preference	Design of offering	VW Beetle old & new
6. Product system	Link products	Microsoft Office
7. Service		Singapore Airline: CAT dealers
8. Channel		CAT; M. Stewart
9. Brand	Communicate tot. value prop.	Absolut
10. Customer experience		Harley D.; Starbucks

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GOOGLE CHANGES EVERYTHING

- ▶ Any fans out there?
 - ▶ Why how-to book sales have dropped?
 - ▶ Search: “Innovation Management (987,000) [“images” (3,600)]
- 
 - + article (261,000)
 - + PDF (81,200)
 - + ERP (619) or software (39,400) or “mature industries” (164) or “service industries” (531)
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GOOGLE + RSS + BLOGS

Don't search “innovation management”, go to blogs like:
www.innovationtools.com

Needle-in-haystack traffic generates real ad \$ via sponsored ad's from complimentary niche providers/partners

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GOOGLE: “LOCAL (+) “FROOGLE” = ?

- Anyone tried “local” or “froogle”?
- Your customers' presence for “local ± froogle”?
- Selling long-tail niche items
- Provide consulting, web services, and . . .
- Sell direct with channel re-intermediation

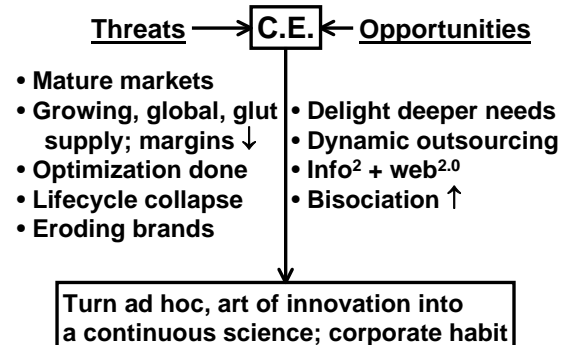
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GOOGLE OVERALL EFFECTS

- ▶ Advertised funding of info-solutions?
- ▶ Matching new, better, buyer-seller & outsourcing partners (global, micro-mfg'rs)
- ▶ Adds big living & dying edges to all business models (from info. perspective)
- ▶ Let's all rethink our advertising & PR efforts around Google (+ RSS/Blogs)

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BACK TO: “CREATIVE ECONOMY”



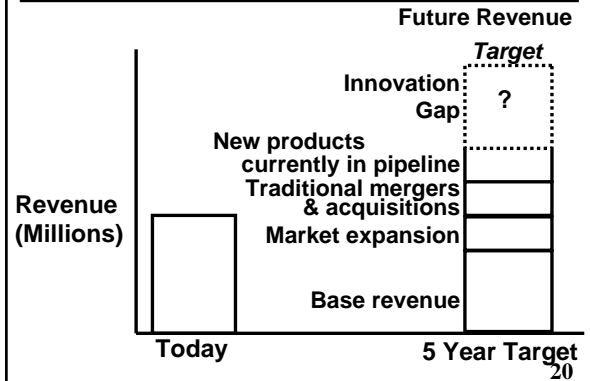
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NOT ENOUGH "CREATIVE" (?)

- ▶ "National Innovation Initiative" (www.compete.org/nii/)
- ▶ Business Week's Special Report issue (8/1/05) "Welcome To The Creative Economy" www.businessweek.com/innovate/index.html
- ▶ Many books, etc. on "creativity - innovation"
- ▶ Lots of agreement "talk", but little "walk"

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WHAT'S OUR INNOVATION GAP?



P&G'S INNOVATION GOAL

"Proctor & Gamble of 5 years ago ('99) depended upon 8000 scientists & engineers for the vast majority of innovation. The P & G we are trying to unleash today asks all 100,000+ of us to be innovators. We're trying to get 70% of our new technology from outside the company."

A. C. Lafley, 2004
from Fortune Magazine

What culture changes to support 100% innovators?

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SUMMARY QUESTIONS

1. How do all employees work to delight:
 - 5 most profitable customers
 - 5 most important targets
2. How can we outsource old & new activity/needs to #1 best partner(s) as we design next-level, service value for #1 niche?
3. What's our Google strategy? (start by Googling your top 10+ products)
4. What are our innovation metrics & results for past year(s)? What should they be in '06? Our innovation gap?

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I. B

"Innovation Management" (IM)

- Definition for types of "Innovation"
- IM process evolution
 - Fuzzy front end dynamics
 - Formal idea management system(s)
- Case: Quill's journey

DEFINE "INNOVATION" ("SCIENTIFICALLY")

"The profitable implementation of strategic creativity." (4 parts)

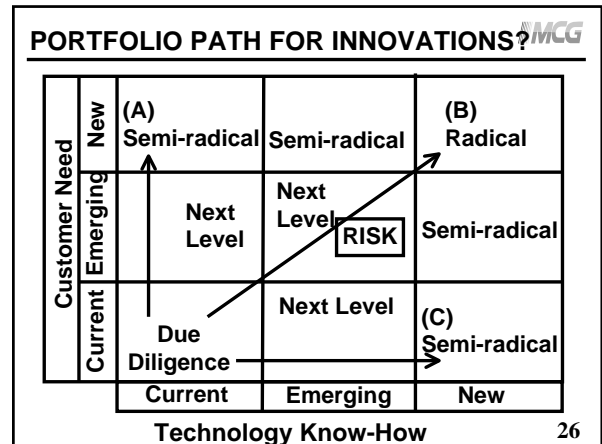
1. Strategic: focus, novel insight, foresight
2. Creative: idea flow; many good too few great
3. Implementation: buy-in, clarity, prototypes, etc.
4. Fills real needs, price > cost = profits

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INNOVATION AT MANY LEVELS MCG

	Individual	Dept.	Co.	Inter Co.	Supply Chain
Efficient
Effect
Transf.

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INNOVATION PORTFOLIO: PAST; FUTURE MCG

<u>Easiest; lowest risk & return</u>	<u>%</u>
Reactive, adaptive, incremental (individual?) change	_____
Proactive, adaptive, incremental (shared) change	_____
Insightful, next-level	_____
Semi-radical tangential	_____
Radical, disruptive	_____

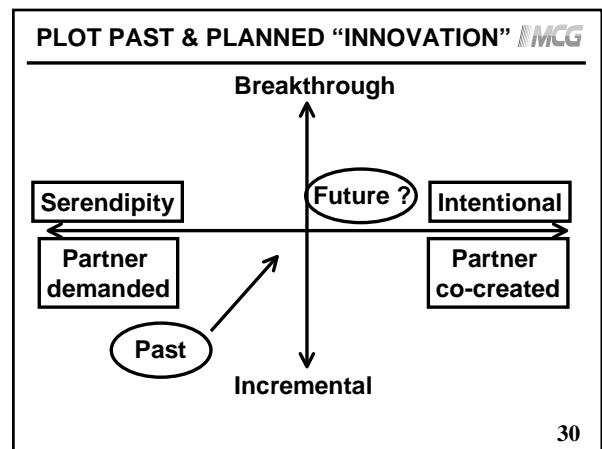
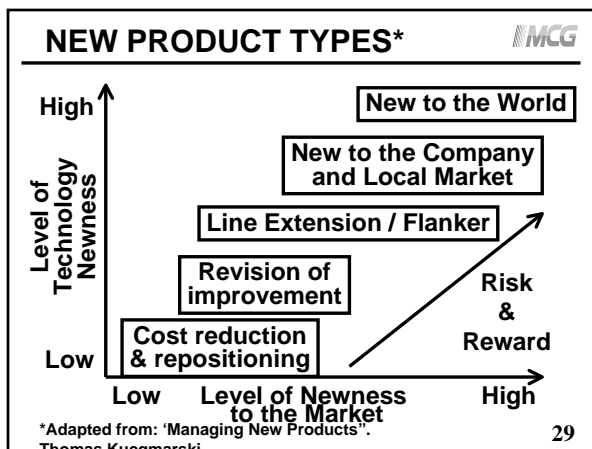
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FROM McDONALD'S PAST* MCG

	Product	Process	Strategy
Breakthrough (Disruptive)	Big Mac	Franchisee regulation of quality consistency	Global Expansion
Next Level	Value Meals	Hamburger University	Opening for Breakfast
Incremental	Green milkshakes for St. Pat's Day	New French Fry cookers	Boston Markets acquisition

*Modified from "The Innovation Resource".

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TIME-OUT QUESTIONS

MCG

1. Why are 5% (-) of all firms continuous innovators?
2. Why are 95% (+) so resistant to change?
3. How to make ideas-to-cash:
 - a) fast,
 - b) continuous,
 - c) affordable,
 - d) with a higher success rate?

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TIME-OUT QUESTIONS

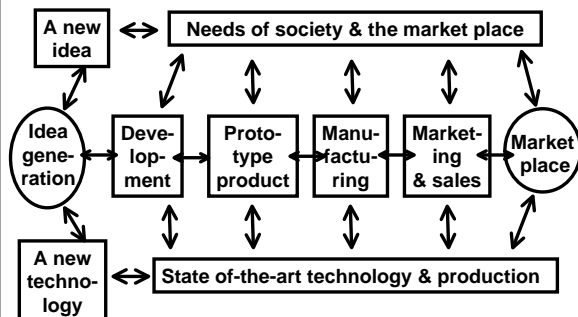
MCG

4. Start-ups live on innovation; mature firms on efficiency. Is IM an oxymoron for mature ones?
5. What do IM processes look like?

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PROCESS MODEL FOR IM ('98*)

MCG

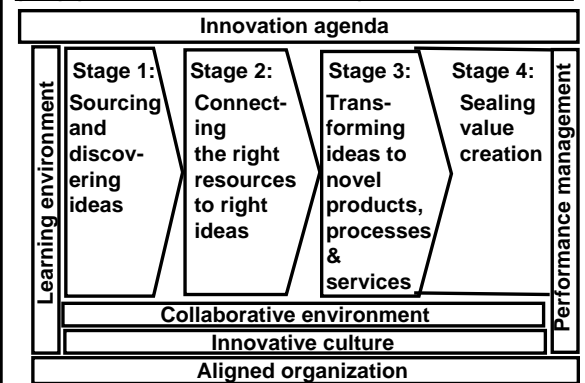


*A process model for innovation. Clark & Guy, 1998

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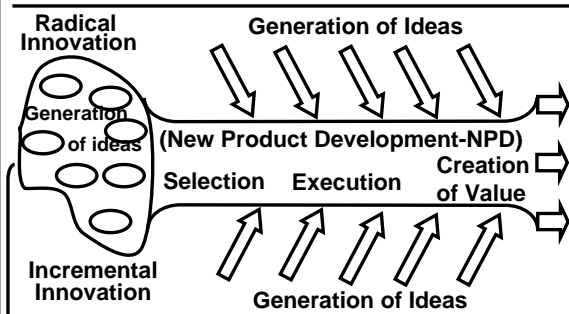
ACCENTURE INNOVATION FRAMEWORK* ('02)

MCG



INNOVATION (X) INNOVATION ('02)

MCG

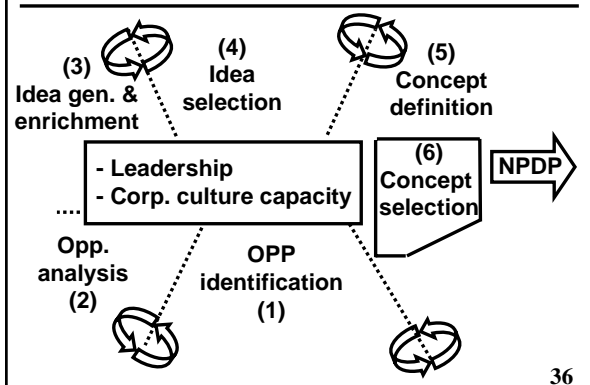


"Fuzzy front end" (FFE)
*Google it under "images"

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FFE IS NON-LINEAR, ITERATIVE

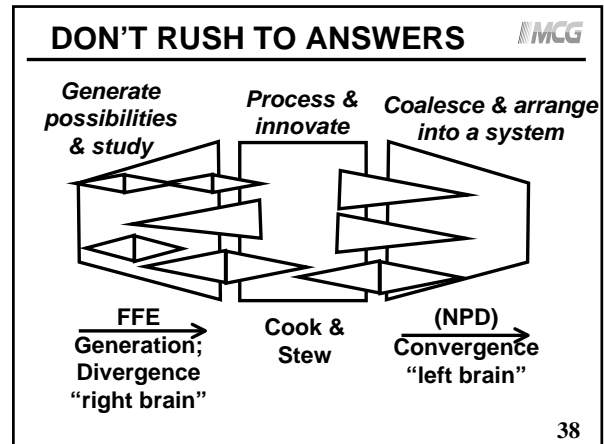
MCG



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FFE VS. NEW PROD. DEV. MCG		
	<u>Fuzzy Front End</u>	<u>NPD</u>
Nature of work	Experimental, often chaotic, "Eureka" movements. Can't schedule invention.	Disciplined & goal oriented with a plan
Completion date	Unpredictable or uncertain	High degree of certainty
Funding	Variable: bootlegged; ex-budget-strategic	Budgeted
Revenue Expectations	Scenario guesses	Increasingly predictable to release date
Activity	Small team	Multifunction
Measure of Progress	Strengthened concepts	Milestone achievement

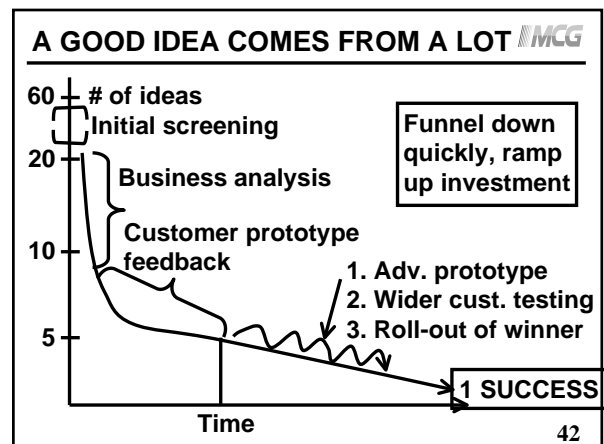
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- WHY RUSH TO "CONVERGENCE"?** MCG
1. Divergence seems frivolous, too blue sky (at first)
 2. Lean-n-mean culture; tight meeting agendas don't allow for divergence
 3. Divergence raises new questions. Don't want:
 - to acknowledge blind spots
 - lack of control
 - to be lost in non-linear soup
 4. Convergent, quick-result thinkers kill ideas before they gestate & evolve. Others ?
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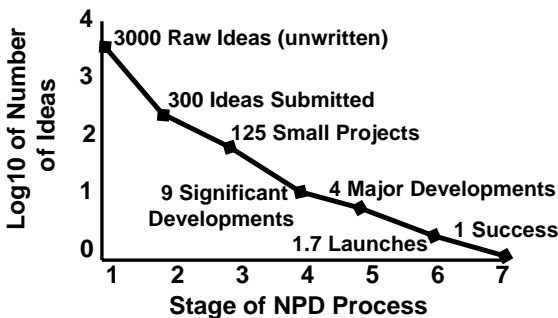
- DIVERGENCE WITH CUSTOMERS - OBJECTIONS** MCG
1. We already know what they want (static needs?)
 2. We already get survey input (new Coke)
 3. Customers can't see the future or their latent needs
 4. Don't have extra resources: time, talent & treasure
 5. Boss is set:
 - adaptive survival is OK
 - go with the gut (past acts always work)
- 40

- IDEATION TERMS & MANAGEMENT** MCG
1. Opportunity = Gap between today & envisioned future
 2. Idea - Embryo of new product or service
 - Raw - unwritten (even unspoken & unstirred) first thinking is old thinking
 - Submitted = Written - 1 line
 - Researched = Written - 1 page
 3. Concept = Well-defined; written; & visual form
 4. Portfolio funnel odds?
- 41



“UNIVERSAL INDUSTRIAL SUCCESS CURVE”*

MCG



*Stevens & Berkley. Research Technology Management 40 (3), May-June, 1997, pp. 16-27.

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IDEATION SUB-PROCESSES*

MCG

1. Encouragement
2. Submission
3. Acceptance
4. Selected
5. Applied
6. Generalized (to all parts of company, if useful)
7. Rewarded (mostly public recognition)
8. Patented (maybe!)
9. Licensed/leveraged (x) other partners

*Have a tracking system(s) for all to use

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GUIDELINES FOR AN IDEA SYSTEM

MCG

1. How are our ideas presently managed?
2. How to solicit ideas from all?
3. The system must be easy to use.
4. Have a champion administrator.
5. Contributors can bypass chain of command
6. Respond promptly to idea contributors.
7. Innovation-savvy people review ideas ASAP.
8. Involve contributor whenever possible.
9. Give recognition for contributing.
10. Fit your firm's unique culture.

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BOOSTING IDEA FLOW

MCG

1. Involve everyone.
2. Involve customers.
(demanding; progressive; best)
3. Involve customer in new ways.
4. Focus on the unarticulated needs of customers.
5. Seek ideas from new customer groups.
6. Involve most progressive suppliers.
7. Benchmark ideation methods.

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CASE STUDY: QUILL CORP.

MCG

- Now a division of Staples
- Article on web -- Google: "Quill Corporation" + "Stephen Shapiro" (article @ www.innovationtools.com)
- In the midst of an 8 stage journey
- From #1 ad hoc → #8 organic innovation (all employees unconsciously competent)

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QUILL'S 8 STAGES (1)

MCG

1. Ad hoc - reactive, unintentional, sporadic, incremental.
2. Core team - lays the foundation, promote awareness.
3. Center of excellence - 1 swat team (x) one opportunity.
4. Spread to other (voluntary) "centers".

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QUILL'S 8 STAGES (2)

MCG

5. Innovation software - engage whole firm.
6. Growth engines for: semi-radical growth, spin-outs.
7. Embedded innovation - all innovate (consciously) daily.
8. Organic innovation - all innovate unconsciously (like breathing).

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SUMMARY POINTS/QUESTIONS

MCG

1. To go through 4 stages from unconscious incompetence to unconscious competence is a journey.
2. How do we crawl, walk, run at our firm?
3. Core innovation team (?) needs new common vocabulary & building block concepts.
4. How to K.I.S.S. for wholesale distribution?

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II.

First Steps Of Our Company Journey

- Warm-up thoughts
 - A. Answering key concerns
 - B. "Core team" agenda items
 - C. Specific first-step how-to's

WARM-UP SLIDE # 1

MCG

"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn."

Alvin Toffler

Are we "literate"?

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WARM-UP SLIDE # 2

MCG

"In times of change, learners will inherit the earth, while knowers will be perfectly equipped to live in a world that no longer exists."

Eric Hoffer

(Are we "knowers" or "learners"?)

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WARM-UP SLIDE # 3 KNOWER VS. "LEARNER"

MCG

- ▶ Admit "I don't know"
- ▶ Are willing to be influenced to get (+) results
- ▶ Have knowledge, but use it to
 - ▶ Learn more
 - ▶ Test what they think they know
 - ▶ Ask great, engaging questions of others
- ▶ Reframe reactive problem-fixing into bigger solutions aimed at systemic root causes aimed at some organizing vision

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WARM-UP SLIDE # 4
A RECOVERING "KNOWER" MCG

- ▶ Praised & rewarded in the school game
- ▶ Self-esteem = knowing most & being in control
- ▶ Secret cramming to stay on top in workplace
- ▶ Or, avoid situation outside their realm
- ▶ Stressed by reality if: results (↓)(+) responsible
- ▶ But, everyone else was doing it

AND

- ▶ Leaders who know all & are right DENY
poor results & necessary change

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II A: KEY CONCERNS MCG

1: We're too small; can't afford/don't have:
cash (+) talent (+) time

Answers:

- Shape-up or out wasteful activities to reinvest
- Everyone is creative & under-utilized; tap it
- Rent outside resources as needed -
"open innovation"
- Crawl, walk, run with easiest ideas; path
- Use innovative tools on these problems
- Alternative - fall behind faster?

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II A: KEY CONCERNS (2) MCG

2: Don't need new ideas; have too many
unfinished old ones.

Answers:

- Apply innovative thinking to:
 - Why we are weak at implementation
 - Why we are weak at change
 - How to redefine/tackle old list
 - Harmonize both sides of brain?
(see next slide)

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HARMONIZE BOTH SIDES OF THE BRAIN MCG

<u>Divergent Thinking</u> (Create)	<u>Convergent Thinking</u> (Judgement)	
Doubt	Compare	} Organize it
Imagine	Classify	
Explore	Prioritize	
Exaggerate	Assess	} Analyze
Provoke	Determine	
Associate		
Combine	Select	} Decide
Model		
Invent		

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KEY CONCERNS (3) MCG

3: How to drive car at 75 MPH and change
(upgrade) the tire. Operate vs. invent?

Efficient Machine Vs. "Managed Chaos"

Make monthly #'s Expense risks for
uncertain long-term
return

Est. incentive/metrics . . . ?

Culture of efficiency . . . Innovation
(Disney Park) (Imagineering)

Answer: Brainstorm a new "and/both" balance

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KEY CONCERNS (4) MCG

4: Create new profitable insight knowledge
inexpensively?

Answer:

A) Focus very best, few people
X
Very best, few business partners

Yields new in-depth insights
(how-to specifics later)

B) Think "open innovation" like P & G

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OPEN-MARKET INNOVATION STATS

Survey

67% lot to gain from knowledge outside co./industry

57% too internally focused in growth strategies

P & G Goals

50% target share of new growth from joint ventures

30% of P & G new products from outside

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II B: "CORE TEAM" AGENDA ITEMS

A. Who's on it?

Quill: CEO + 1 - few + advisor

B. Score separately current innovation capacity

- Google: "innovation assessment"
- specific example - next slide

C. Practice better "ideation" on FFE opportunities

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INNOVATIONAL SELF-DIAGNOSTIC TOOL

I. Enterprise readiness

- Innovation history & results (8 Q's)
- Innovation infrastructure (8 Q's)

II. Individual initiatives

- Innovational insights (10 Q's)
- Innovational development (7 Q's)

Results + feedback summary (compare, discuss results with all key managers who do the quiz independently).

*http://bwnt.businessweek.com/self_diagnostic/quiz.asp 

CORE TEAM "IDEATION" TOPICS (1)

(General topics - no particular order)

- Thoughts on "opportunity gaps" from IM quiz
- Starting simple 1st step, idea tracking system
- Revisit past initiatives done creatively, well or not
- Next round of additional team members
- First team (x) first project
- New metrics & incentives for IM journey
- Pace for the IM journey

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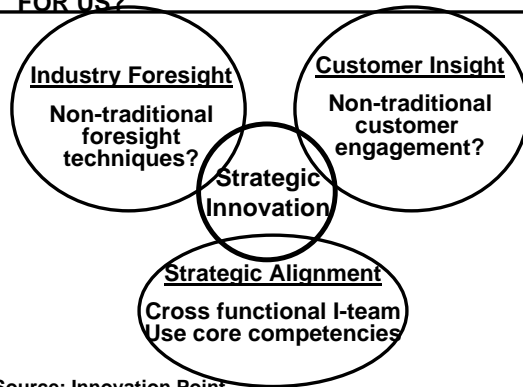
CORE TEAM "IDEATION" TOPICS (2)

1. Get WD-specific insights cheaply*
2. Team-tackle target accounts (Slideshow # 8 at www.merrifield.com)
3. 20 - 50% more old items to old customers-systematically. (Exhibit 25, Article 2.22, & Article 4.9 at www.merrifield.com)
4. Turn super-loser accounts to winners (Article 4.10 at www.merrifield.com)
5. Developing more, unique, strategic insights (Article 1.14 at www.merrifield.com)

*High Performance Distribution Ideas for All DVD kit . MDM is a reseller.

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STRATEGIC INNOVATION SPOT FOR US?



*Source: Innovation Point

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CORE TEAM "IDEATION" TOPICS (3) *MCG*

Culture Innovation Training

1. Push "The Wheel of Learning" to . . .
2. Make "Good Mistakes" (Exhibit 24)
3. To "Fail Forward"
4. Published praising statements (Article 6.3)
5. All this & more in "High Performance Distribution Ideas for All" Modules 5.2 - 5.11.

*Article and Exhibit are at www.merrifield.com

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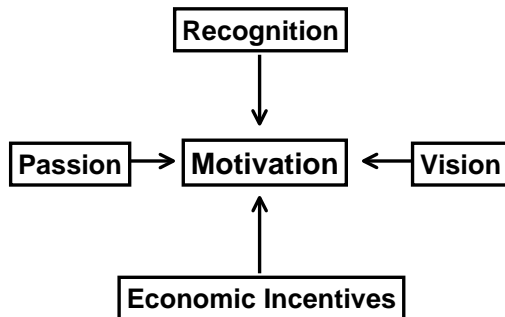
CORE TEAM "IDEATION" TOPICS (4) *MCG*

Employees Become:

1. Motivated, forward-investing, proactive, sweat-equity contributors to IM
2. Open book management responders (High Performance Modules 2.1 - 2.12) (Station WIIM background)
3. Keepers of: (Modules 4.1 - 4.14)
 - basic service excellence metrics
 - Heroic acts & recoveries (x) key accounts
4. Hit all 4 motivational elements many ways

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THE 4 ELEMENTS OF MOTIVATION *MCG*



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DOWN THE IM ROAD *MCG*

1. Gartner Group tracks 5 categories of IM software tools
2. ERP software doesn't provide integrated idea management
3. Shoot for an "Innovation Project Portfolio" to . . .
4. Create your own branded strategic path (4 support slides)

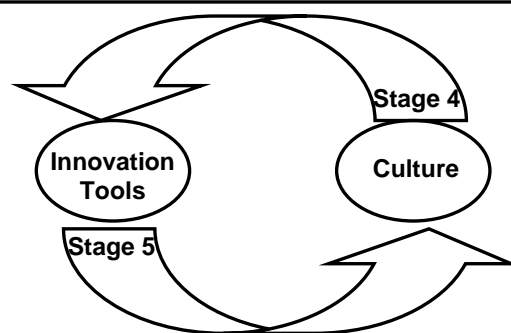
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ADAPTING QUILL'S 8 STAGES *MCG*

1. Ad hoc
2. Innovation core team (today)
3. Center of excellence (first big play)
4. Community of practice (more teammates)
5. IM software (Gartner's or home brew)
6. Growth engines (portfolio slide)
7. Imbedded innovation (conscious competence)
8. Organic innovation (unconscious competence)

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NEED #4 TO USE #5 *MCG*



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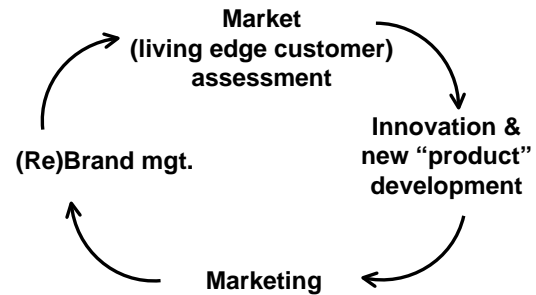
#6: INNOVATION PROJECT PORTFOLIO *MCG*

1. For risk management:
 - most promising can fizzle
 - least promising can take-off

} For unpredictable & uncontrollable reasons
2. For budget & pace purposes
e. g. 3M R & D people spend 1 day/wk (20%) on anything they think could make money
3. To look for & cultivate synergies between ideas & shared "platforms" &/or business partners

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FINDING OUR OWN STRATEGY *MCG*



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FINAL CONCLUSIONS (1) *MCG*

1. We are in a "creative economy"
2. The innovation bar is raised
3. Start an IM path - simply - today
4. Harvest dying & wasteful areas to innovate into living edge(s)
5. Shoot for 50% (+) "open innovation"

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FINAL CONCLUSIONS (2) *MCG*

6. Be #1 or outsource to who is
7. The art of innovation is becoming the science of IM;
dumb down what bigs pioneered
8. All people are innately creative, tap into their latent potential

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CLOSING QUOTES (1) *MCG*

1. Insanity is doing the same thing over & over & expecting different results
Einstein
2. A problem cannot be solved by the same consciousness that created it.
Einstein
3. The future is already here. It's just not evenly distributed yet.
William Gibson

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CLOSING QUOTES (2) *MCG*

4. Creativity is about divergent thinking.
Innovation is about convergent thinking
Ikerjivo Nonaka
5. The real difficulty in changing the course of any enterprise lies not in developing new ideas, but in escaping old ones.
John Maynard Keynes
6. People support what they help create.
Anonymous

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CLOSING QUOTES (3)



7. "Nothing is as powerful as an idea whose time has come."

Victor Hugo

8. "Never doubt that a small group of committed citizens can change the world. Indeed, it's the only thing that ever has."

Margaret Mead

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MDM'S SEMINAR SPECIAL



- MDM is a reseller of Bruce's "High Performance Distribution Ideas for All" DVD education kit
- The list price is \$995. MDM's price is \$495
- Seminar participants have a special price of \$395 and a free trial offer for 30 days

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Bruce Merrifield is a strategic advisor and planning facilitator who specializes in converting GroupThink to NewThink.

For more on his services and published areas of expertise go to:

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