Innovation has always driven brand-owners in the consumer goods sector, and recent Korn/Ferry International research hailed these brand-owners as innovation leaders. Yet the challenges of managing innovation are escalating rapidly as the global economy continues to suffer, with upheavals shifting global wealth and demand patterns and new technology fragmenting communications, media and distribution channels.

We spoke to senior executives at fast-moving consumer goods (FMCG) brand-owners, based mainly in the UK and Western Europe, for a perspective from the front lines. They offered candid glimpses into the obstacles they’ve faced and initiatives they’ve launched as they work to innovate through this evolving terrain.

We’ve divided their wide-ranging efforts into four distinct categories of innovation, using a framework developed by Korn/Ferry’s Jane Stevenson in collaboration with Bilal Kaafarani, to give brand-owners insights into the kinds of innovation required to execute their strategies successfully. Building on that framework, we have developed an approach for helping organisations assess whether they have the right talent in sufficient quantities to foster the kind of innovation appropriate to a brand’s strategy and business model.
**Executive summary**

1. In mature markets, consumer needs seem saturated. With the austere climate putting further downward pressure on spending, the rate of innovation investment is dropping.

2. Especially in the cut-throat cauldron of an intense retail market such as the UK, it is not an option for FMCG brand-owners to focus purely on product innovation and renovation. Holistic innovation focused on the whole business model is critical to success in the eyes of the consumer, customer, and shareholder.

3. Even among global brand powerhouses which have the resources and processes to drive game-changing break-through innovation (an example—the development of so-called *cosmeceuticals*, which utilised the application of genetic and molecular research techniques from the pharmaceutical industry and applied them to the beauty industry), the high risk of deploying new business models causes most organisations to fall back on simple “brand renovation” and tactical, commercially-focused innovation activities like line extensions and packaging to refresh a mature category.

4. The need for leaders who can 1) create a business environment conducive to idea generation and 2) implement innovation that is linked to the business strategy has never been greater. Korn/Ferry research suggests that innovation skills are scarce and can be challenging to develop, especially if the strategy dictates the need for break-through innovation. It can take time to get the right culture, structures and development processes in place to both cultivate existing talent and attract new talent. However, even an army of innovators with the right technical skills, or a particular structure or powerful organisational model will fail without the right culture and leadership from the CEO. The CEO, with board support, has to ensure that the business strategy is complemented with appropriate forms of innovation to ensure successful execution.

5. In our work looking at the connections between innovation, consumer brands, and organisational development, Korn/Ferry has developed a framework for understanding different forms of innovation, the corporate cultures that foster them, and the formal and informal structures that give birth to innovation. These different forms of innovation, which reach from R&D to operations, have implications for the level and nature of investment in people and for the development agenda required to execute them effectively.
A framework for innovation

In mature markets like the UK, the pressures on brand-owners are intense. Consumers appear saturated with products that meet their basic needs, and when they do shop, the recessionary climate has sent them hunting for bargains.

“In a developed market, we have to accept the fact that people don’t really need much of anything anymore,” said one regional president from a global brand-owner. “You’re really just driving share gain because it’s hard to find new solutions for things people already have.”

In the UK, retailers have responded by increasing the strength of their own-label ranges, creating a highly competitive market for brands. Last year, the proportion of own-label new product development in the UK overtook branded development for the first time: Brands held a fifty-five percent share of total new product development in 2010, but only forty-six percent in 2011 (Mintel Survey, May 2012). It is perhaps more worrying for brand-owners that fifty-two percent of adults say they prefer own-label to specific brands.

Innovation is therefore increasingly vital to help brands grab the attention of shoppers and retailers. In order to maintain and increase brand equity, Korn/Ferry research found that all the consumer brand-owners it surveyed had specific teams focused on building a pipeline of innovation. Yet several admitted that they struggled to be truly innovative. Referring to the drinks sector, “The industry tends to be good on the packaging innovation front, but relies so much on the heritage of brands that blue-sky innovation is rare,” Stefan Bomhard, Regional President, Europe, Bacardi Group told us.

Despite some insecurities about their abilities to innovate well, brand-owners provided rich examples of approaches that have yielded new products, systems and profits by looking at opportunities throughout the business model, not just in the realm of marketing and R&D. Jane Stevenson, the Chair of Korn/Ferry’s Board and CEO Services Practice, describes four kinds of innovation in her recent book Breaking Away, co-authored with Bilal Kaafarani.

**Transformational Innovation**, with the power to change not just a business but the culture at large, is driven by pure invention and discovery. It’s unpredictable, and elusive.

**Category Innovation** has its roots in past inventions that are then utilised for new applications or for new markets to serve. This type of innovation can be cultivated in-house or acquired. In concert with

“ In a developed market, we have to accept the fact that people don’t really need much of anything anymore. You’re really just driving share gain because it’s hard to find new solutions for things people already have.”

Regional President, FMCG brand-owner

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marketing, it produces products and approaches that create new categories, or revolutionise and dominate existing ones.

**Marketplace Innovation** brings new ideas to existing product categories, asking such questions as “What else can we do with this familiar product,” and “Where else can we take it?” It looks not only at the product, but also at innovating the channels to market. This is the driving force behind most consumer brands.

**Operational Innovation** comes from examining processes and organisational structures that enable faster, better, cheaper delivery. This type of innovation looks to boost productivity and financial performance inside the company and also to improve customers’ experience by improving service, or making a product that is cheaper, more ‘green’ or perhaps more sustainable. This variety of innovation is a key to profitability.

Using this framework, we’ve summarised selected comments from FMCG brand-owners that highlight real-world examples of these forms of innovation and the challenges they pose. The feedback and anecdotal evidence we’ve received suggests that brand-owners inevitably spend the most time and effort on Category and Marketplace Innovation. Operational Innovation receives much deeper and more consistent emphasis in some cultures than others, and Transformational Innovation, by nature both high risk and difficult to develop, is greatly admired, but rarely a strong focus. Brand-owners emphasised that to succeed, innovation strategies must be closely tied to the success of the overall business strategy.

**Transformational innovation**

Transformational Innovation produces products, ideas and structures that change the paradigm and provide unanticipated benefits to our lives, culture and community. The emergence of the Internet and mobile telephony are the ultimate recent examples of this kind of research- and invention-driven breakthrough, providing the foundation for a cascade of new businesses including Amazon, eBay, Google, Facebook and Twitter, themselves examples of Transformational Innovation.

Defining the market potential of products and businesses that spring from this sort of innovation can be tricky because they challenge the status quo, raising the risk/reward ratio exponentially: Amazon was unprofitable for considerably longer than was considered acceptable at the time and set the standard for the “burn-rates” of subsequent Internet start-ups.
Often born out of curiosity, discovery and “right-brain” creative thinking—frequently without regard to standard success metrics—this sort of innovation can easily be killed off in a large corporate environment. It was much admired by brand-owners in the FMCG sector, but none of them focused on it heavily in their comments to us.

**Category innovation**

Category-based innovations can bring massive change to a brand, creating new categories and transforming old ones.

This variety of innovation builds on discovery, but it is closely tied to marketing and works best when the R&D, marketing and operational leadership of the business are aligned. Apple’s iPad and Dyson’s vacuum cleaner, two key examples of this Category Innovation, each built rapidly on Transformational Innovation. Apple, building off the Internet, used its own design capability (with a template in the iPhone) and unique software development to set itself apart, quickly popularising and dominating the tablet computer category. Dyson built on its own inventiveness—a design for a vacuum that wouldn’t clog because of its “cyclonic technology”—and its marketing capability to bring creative disruption to the white goods category, and to, in essence, create a new category in itself. It’s perhaps no surprise then, that Apple and Dyson were amongst our survey respondees’ most admired brands for their distinctive approaches.

Large multinational consumer brand-owners often put technical research and development at the heart of their idea-development process, and at some of them, research is clearly king. “Using science has always been at the core of the business,” explained one global marketing director of a major brand multinational in the beauty care segment, and that’s meant taking the two-fold approach of developing products and technologies in-house and incorporating technologies developed elsewhere.

“We have a ‘Connect and Develop’ programme—an ‘open-source’ approach focused on finding people and technology we can work with externally...” she explained. At the same time, “we do a lot of genomics research, we have published papers, won awards in this field and are considered a leader in genomics which is a key beauty trend... we have focused on trying to re-signal cells so that they act in more youthful ways.”

<table>
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<tr>
<th>The category innovation leader</th>
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<tr>
<td><strong>Characteristics</strong></td>
</tr>
<tr>
<td>• Highly innovative, creative, sees trends and patterns easily</td>
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<tr>
<td>• Business savvy</td>
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<td>• Excellent impact and influencing skills</td>
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<td>• Decisive and willing to take risks</td>
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<td>• Ability to leverage a network of people and resources</td>
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<td>• Desire to move quickly, often impatient with politics</td>
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| **Competencies** |
| • Creativity |
| • Dealing with Ambiguity |
| • Business Acumen |
| • Interpersonal Savvy |
| • Timely Decision Making |
| • Organising |
| • Standing Alone |
| • Innovation Management |
| • Problem Solving |
| • Organisational Agility |
| • Presentation Skills |
| • Conflict Management |
| • Action Oriented |
“We have found that hatching innovation that focuses on a time frame greater than three years or so has been challenging.”

Global Category Director

That’s helped make the company a leader in *cosmaceuticals*, cosmetics with a pharmacological effect: “One example is that of an innovative skincare regime which is as powerful as prescribed treatments and was designed by renowned dermatologists and scientists,” she explained. “The payoff was immediate when the product came to market and it sold out within minutes on the Internet in the U.S.,” she added.

Large organisations often have an advantage in Category Innovation because they’re often the only ones with the time and resources to tap into such primary discovery, but they often struggle to create the structures that can nurture it, and weather the long timelines and unpredictability that are so often part of the process.

One global category director explained, “we have found that hatching innovation that focuses on a time frame greater than three years or so has been challenging. Over the last decade we have looked at ways of getting around this,” he said, “such as the off-balance sheet approach developed through an ‘Enterprises’ arm as well as the establishment of a ‘Break-Out Business Unit’. Some of this is beginning to work well now with a significant proportion of the Enterprises’ portfolio both growing fast and on-strategy, as we have become more experienced in selecting and cultivating these businesses.”

At Unilever, Peter Soer, Global Category Head of Oral Care, told us that, “Balancing blue-sky inclinations of R&D and marketeers’ perceptions of the pragmatic needs of the market was helped by improving communication and interdependence between marketing and R&D. Previously R&D would sometimes be working more on their perception of ‘what the world needs’ or what technology can deliver as distinct from marketing’s perspective of ‘what consumers want or brands’ innovation needs’.”

Players with more limited resources have found ways to enter the field by folding-in and adapting technologies developed elsewhere. Some larger private-label producers have been taking on brand-owners in their own categories, challenging brand-owners’ pre-eminence. Chris Bull, CEO of a UK private label provider told us:

“We are starting to lead some innovations ourselves and are bringing one or two things to market ahead of branders. For example last year we created a strategic relationship with a third party biotech company and have taken their ‘R’ and combined it with our ‘D’.”

“Balancing blue-sky inclinations of R&D and marketeers’ perceptions of the pragmatic needs of the market was helped by improving communication and interdependence between marketing and R&D.”

Peter Soer
Global Category Head of Oral Care, Unilever
We have developed a twenty-four-hour germ kill product, which performs better than the leading brand. This has launched with Tesco and is on the shelf now and we have expanded the range. We are on the front foot now—and have a completely different relationship with the customer.”

Thomas Delabriere, formerly Marketing Director of Innocent, now with Mars, reminds us that a bold start-up (even if now partially owned by The Coca Cola Company) can take on the world in revolutionising a category. And it needn’t rely solely on years of R&D.

“Innocent uses the same stage/gate process as larger brand-owners—taking products through stages of testing—to innovate,” he said, “but we have a more informal, inspiring, quick and entrepreneurial process alongside this, totally unique to Innocent. The best innovation to emerge from this second process, which is a bit maverick, was the Veg Pots business—vegetables spiced with flavors from international cuisine. It made £2 million in the first year and then £17 million in the second year. It is growing, profitable and incremental to our business.”

“It’s quite healthy to have the two approaches, it helps to take the best from the standard big FMCG companies and also from start-ups. The only caveat: it can create internal tension but this can be managed.”

Marketplace innovation

Bringing new ideas to existing product categories is the lifeblood of most major consumer brand companies, and Marketplace Innovation is as familiar as the words “new and improved.” It usually involves the development of new features or benefits that keep a category fresh and up-to-date with consumer trends. As Unilever’s Peter Soer explains, it’s also “an important opportunity to talk to the consumer and customer, raise brand equity and increase prices.”

Unilever terms the process of updating and evolving brands “brand renovation,” and Soer cites as a recent example Dove Men plus Care, “which takes an established brand to a new consumer base and incorporates new technology: This is the first time the successful Dove franchise is talking directly to men. Another example is the inclusion in Lifebuoy Soaps of an active ingredient allowing for ten times better bacterial removal than was possible previously.”
Brand-owners deploy Marketplace Innovation in day-to-day commercial activity as the most immediately fast-to-market and profitable. At the same time, mid-market players without the money to invest significantly in research and development, or those companies supplying own-label, can also find such incremental innovation highly effective and within their budgets.

Sustained Marketplace Innovation may hold the potential to add to a company’s long-term revenues through continuous refreshing of the sort found in brand extensions such as Walkers Crinkles crisps or Unilever’s use of the Marmite brand in flavoured nuts and biscuits. This is the stuff of Marketplace Innovation: finding new forms for familiar flavours.

Our respondees were full of examples of the way consumer purses can fly open when a re-imagined brand catches their fancy. “The launch of our Cadbury’s Biscuits range—really based around Crunchie, Caramel and Turkish Delight—created a £15m retail brand there from nothing” said Stuart Wilson, Chief Marketing Officer of Burton’s Biscuit Company. “I’d say only BelVita from Kraft”—a wholegrain breakfast biscuit—“has had a similar game-changing impact in recent times. These successes don’t come along very often but it proves you can do it and success breeds success.”

Within the Flavoured Alcoholic Beverages ("FABs") niche, “one of the most innovative line extensions launched in recent years was the Bacardi Breezer”—rum-based, fruit-flavored drinks—“which came from Bacardi rather than Diageo or Pernod Ricard,” Stefan Bomhard, Regional President Europe, Bacardi Group told us.

Inge Heinsius, VP, International Marketing & Merchandising, Godiva Chocolatier, Inc., brought a global perspective to the need for cross-cultural consumer insights, where marketplace innovation is key:

“Inge Heinsius, VP, International Marketing & Merchandising, Godiva Chocolatier, Inc., brought a global perspective to the need for cross-cultural consumer insights, where marketplace innovation is key:

“Traditionally, our seasonal innovation has centered around Valentine’s Day and Christmas,” Heinsius told us. “With our geographical expansion we are capturing insights on regional consumer habits and celebrations, such as Chinese New Year or Mid-Autumn Festival. We are creating innovative products with the local consumer in mind, as with our high-end gifting range for the Middle East, whilst respecting our brand heritage. At the same time we leverage successful ideas from different regions around the globe, to ensure maximum success.”

Critical to Marketplace Innovation is making consumers aware of new products, a task that now plays out not only through traditional marketing but also through a technology-driven network of communications

“Inge Heinsius
VP, International Marketing & Merchandising,
Godiva Chocolatier, Inc.”
channels that are increasingly sophisticated and fast-changing. These channels offer a much-needed window into the minds of consumers and their online and offline behaviour. But using them effectively can be a challenge for brand-owners. They can struggle with the engagement required to use social media to become top-of-mind with consumers and to control brand image on outlets such as Facebook and Twitter.

Troy Warfield of Kimberly-Clark focused on the pluses: “The cost of launching innovation is dramatically reduced because of social media which enables a brand to get into the consumers’ minds more quickly. It can also be more targeted and impactful at a lower cost.” That requires mastery of the technology—and the art—of this new engagement.

Operational innovation

Making processes and organisational structures more efficient and effective is vital to improving the profitability of any consumer brand-owner.

Innovation in this area looks to boost productivity and financial performance inside the company by drawing on a deep knowledge and keen observation of how business is done, and how it might be done better.

At Pepsico, that meant working with Cambridge University to develop iCrop, a system that tells farmers when potatoes are ready and helps with forecasting so that they don’t waste chemicals by spraying when rain is due, said Richard Evans of Pepsico, offering a striking example of Operational Innovation.

Evans continued, “When we looked at our logistics it was obvious we could be more innovative. One example is how we developed trucks that were able to both deliver perfect fresh crisps to our customers and on the way back pick up raw potatoes from our farms, minimising road miles and reducing our carbon footprint. We have also found innovative ways of using wastewater from washing and peeling to unload raw potatoes whilst ensuring they are not bruised or damaged to create that perfect crisp!” That’s the sort of thinking that produces Operational Innovation.

“Innovation is integrated into every aspect of what we do—consumer concepts, ways of working, communication, connectedness, culture,” says Angela Ahrendts, Burberry’s CEO, echoing comments we heard from many brand-owners.
Improving the experience for the customer was high on the list of Operational Innovation priorities. Many companies have done this by aiming to make their products cheaper or to reduce negative impacts on the environment. One example: the evolution of so called “Retail Ready Packaging,” which transports a consumer product from factory to retail shelf, with the container acting as a merchandising unit. No longer is it necessary to pack products in secondary or transport packaging, which then has to be removed and disposed of in-store. The brand reaps logistical cost savings, which it can reflect in retail prices, and it reinforces its standing with consumers as being more ‘green’ or sustainable.

The focus on Operational Innovation isn’t unique to brand-owners. Korn/Ferry research among retailers found that more than half thought their biggest innovation in the last few years had been in service compared to 30 percent who referred to product. (See Figure 1)

Getting to grips with new communications techniques in the age of social media, as noted previously, is another essential form of Operational or Marketplace Innovation, requiring frequent technical and social leaps to keep pace and add value to customers’ experience as their attention moves to Instagram or Pinterest or the next new platform.

With financial returns that tend to be highly predictable, Operational Innovation is low-risk and important to every consumer brand, especially in times of austerity, when it can free up further margin that can be redeployed to support A&P spend, for example.

Further, Operational Innovation is intrinsic to Category Innovation, as Category Innovation requires the evolution of a new business model to succeed. “Dreamers who are envisioning the future do not succeed without

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Figure 1* Which best describes your company’s biggest innovation from the last few years?

- 30% Product
- 55% Service
- 15% Ways of working

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strong operational management,” noted Peter Dart, Founder The Added Value Company, Director WPP Group. “And innovation is not achieved by strong operational management alone.”

As Peter Soer of Unilever shared with us, organisational alignment is critical to delivering the Operational Innovation that underpins successful Category Innovation: “I must emphasise how important it is to have the business model you need to drive innovation of this kind in new, fast developing and premium segments such as Functional Foods,” he told us.

“In Unilever over recent years we have developed a relatively small group of senior leaders who lead either international innovation or in market execution excellence. These people have rich business experience & mutual respect, which enables fast decision making and issue resolution. Responsibilities are clear and KPIs and incentives cover both short and long term, so that people are sharp on ‘delivery now’ while also making the right decisions for the future health of the business.”

**Leadership inspires innovation; people and processes realise it**

Though they come at innovation with a multitude of different perspectives, a chorus of respondees, agreed on one thing: Leadership drives innovation.

“If it’s one person in the company then it’s the CEO. It starts at the top.”
–Stuart Wilson, Chief Marketing Officer of Burton’s Biscuit Company

“At the end of the day, it’s the CEO. The recommender should be the Marketing Director but the CEO drives an innovation culture.”
–Thomas Delabriere (Former CMO Innocent, now with Mars)

Korn/Ferry research has found that all consumer brand-owners have a specific innovation function, and eighty percent devote specific budget to the generation of new ideas. In larger organisations, innovation tends to be centralised at a global or regional level within brand or category teams, and ideas for new products go through a series of tests (a “Stage Gate” process) before areas of the business such as marketing, communications, operations and supply chain are brought in for a launch.
This process-driven approach to innovation can encourage people within the business to think of innovation as a discrete function that is driven by a core of individuals, often in a head office environment, with some (or little) input from local markets. That can have the effect of stifling a broader innovation culture and discouraging the evolution of fresh thinking. The establishment of groups like Pepsico’s New Ventures unit more recently, and numerous other such examples, were intended to create more entrepreneurial innovation outside the confines of the corporate structure and processes.

“Enabling smaller teams to capture smaller stuff and not encumbering them with the weight of large-scale innovation,” was the goal of New Ventures, Pepsico’s Richard Evans told us. “The team is a six person, cross-functional group that is designed to help us get projects off the ground quickly, rather than take the normal year in development. But also you need global R&D efforts based around ideas and process technology—looking at what ingredients have positive claimable benefits—in order to drive scalable applications,” said Evans, Pepsico’s President UK & Ireland.

New companies such as Innocent have less need for special innovation teams at this stage—though as we saw earlier, even they are happy to go outside their own walls and see what a marketing consultant can dream up on a low budget. Innovative entrepreneurial spirit is embedded in every fibre of the business. All stakeholders, and outsiders, are encouraged to come up with new ideas, which can be developed by the business as a whole: the CEO or Founder has given everyone a mandate to come up with new ideas.

Whether the innovation function is centralised or scattered, the CEO naturally sets the tone throughout the organisation. Focusing his or her executives regularly on the progress within the innovation pipeline will encourage innovation. Distraction or neglect will discourage it.

“Apple is an extreme example of a culture that got innovation right,” said WPP’s Peter Dart. “Ultimately Apple’s culture was defined by the CEO Steve Jobs’ obsession with new products and developments and the detail of these: the CEO and CMO have to drive the tone in encouraging innovation—if they do not do this from the top, no one will. The siren voices of sales, finance and operations risk drowning out the future in favour of the status quo.”

At a time of obsession with financial, geopolitical and other forms of risk, the risk to the company of not innovating in accordance with the company strategy is often ignored. The CEO and Chief Marketing Officer
must play the key roles in flying the flag for innovation of all kinds, because if they don’t, the typical Finance or Operations executive will reliably come up with a good reason why launching the new product or building the new line is too risky an investment to move forward.

Ultimately, if the CEO is not driving the company’s strategic innovation agenda, then it is up to the Chairman and the Board to determine at what point this constitutes too great a risk for the company’s future. The question will then be whether the CEO is fit to apply and execute the right strategy. Kodak stands out as one example of a critical failure to address the innovation challenge faced with a revolutionary change in technology, threatening the survival of the company itself.

Diversity as a key to cultivating innovation

Ideally, brand-owners will view innovation holistically, and build leadership teams that bring together a mix of intuitive and rational mindsets that can contribute to the effective Operational Innovation required to realise successful Category and Marketplace Innovation.

Unilever’s Peter Soer added rich perspectives on the need for cross-functional Innovation in his company. A global brand-owner with four “super categories”, he also offered insights into ways in which compensation design and diversity contribute to a holistic innovation process.

To ensure that executives are appropriately compensated for launching initiatives that may not be profitable until after they’ve left their positions, Unilever adjusted its key performance indicators. Soer told us that they added “a formal variable pay measure into the KPIs that looks at the payback of innovation beyond a typical three-year role tenure. This helps drive behaviour that is more creative, faster and committed to innovation.”

“To deliver your business ambition you must put in place world class talent and capability. Recruiting and developing great marketers & innovators is a key leadership responsibility. I believe the best marketers combine analytical rigour and intuitive insight. It is also important to develop relevant market domain expertise. Depending on the particular market challenge and the team one inherits, you must both develop internal talent and refresh the gene pool with external hires,” Soer said.

The risk to the company of not innovating . . . is often ignored.
We have developed our global functions such as supply chain and finance such that they now work in a truly global and cross-functional way, more interconnected, more able to drive opportunities within and across categories fast internationally, and enabling even better work across the functions of R&D, Supply Chain / Ops and Finance.”

“In terms of improving the culture with an eye on innovation,” he added, “I believe we need to focus on diversity of talent, in particular developing female, Asian and Muslim leadership in international teams.”

At Kimberly-Clark, the emphasis is also on diversity, both in talent and approach to problem-solving. “We have turned round 25% of the population at KC—bringing people into the business from Unilever, Procter and Gamble, Coke and therefore bringing a diversity of thought into the business,” Troy Warfield told us. “Each quarter we take an entire marketing and R&D community out with external best-in-class talent on an ‘innovation’ exercise. We have collaborated with expertise from Twitter, Google and Facebook and also Phil Rumbol (Ex Cadbury) and challenged our mentality model to see how applicable the same issues and learnings are in different sectors and businesses. We then brought these learnings and different ways of doing things into KC.”

“The culture within the business is one of ‘reward and recognize,’” Warfield said. “We reward people who take a gamble, e.g. our Kleenex skincare range is a huge gamble as we will be competing with very big players (Unilever and P&G) on a category that we currently have no presence in. Therefore, an innovative management and cultural mindset within FMCG—or more particularly KC—is about taking calculated risks. How easy within FMCG is it to create a culture where people are able to take calculated risks, however? The ‘riskier’ core innovation within our business currently and historically engendered a low tolerance for failure.”

**The impact of ‘function vs. emotion’**

The corporate culture of a brand, and its culture of innovation, are often heavily influenced by the essential nature of the brand itself. Particularly whether its approach to consumers emphasises its products’ function or its strong emotional bond with the customer. A marketer of dishwasher tablets may have relatively high R&D costs to constantly drive new functional attributes that keep them top-of-mind with the consumer. Such products may be relatively easily replicated by branded or own-label competition, requiring constant innovation to refresh the brand’s advantage in the eyes of the consumer.
Brands with strong equity and an emotional bond with consumers are harder to displace in-store by competition or by own-label producers. Innovation must be consistent with the consumer perception of the “soul” of the brand. History is littered with examples of brand crisis caused by inappropriate innovation (New Coke, etc.).

These factors have a strong effect on corporate culture, which in turn shapes a business's approach to innovation. Employees of “lifestyle” brands, and those with strong emotional brand loyalty and depth (Coke, Bacardi, Harley-Davidson), may develop a strong reverence for the values of the brand that helps to ensure that frontline employees stay close to customers and excel at tactical Marketplace Innovation. They may be less adept, though, at category-changing innovation. Employees who work with brands that emphasise pure functional innovation, commercial success and the usefulness of the product may derive satisfaction from those metrics, but nonetheless, lack the deep knowledge of customers that could improve a brand's tactics in the marketplace. Cross-pollination in hiring—bringing a touch of “soul” into a functional brand or looking for talent that could spot technical or Operational Innovation opportunities in brands that emphasize emotion—is another way to encourage diversity and holistic approaches to innovation.

Here, as with every other aspect of innovation, leadership sets the tone.

**Assessing and enhancing innovation capability**

“You've got to be equally good at generating and implementing ideas.”

—Angela Ahrendts, Chief Executive of Burberry

Great execution of innovation does not happen without the right mix of people and skills across all key functions within a branded business. According to our study, all consumer brand-owners specifically recruit and develop staff with the aim of increasing innovation capability in line with their organisation's strategy. Building a culture of strong innovation execution and delivery requires recruiting and developing the right people, then working hard to reward and retain them.
Soer at Unilever added a personal view “Innovation in my view requires assessing whether we have ‘the right to win in the space’ and in ‘fishing where the fish are.’ In other words do we have the competence, talent, finances to succeed in the identified growth space versus the competition and is each project on strategy? Greater success was found where we had:

- The right equity
- The technology works and we have really good clinical data to back it up
- The technology is credibly externally validated
- The right brand carrier—the brand, product and language fit consumer behaviour
- Speed in learning on the journey
- Confident and experienced leaders who interpreted the data and took risks

The lessons from this, among others, are that if you just use traditional research only and you don’t apply deep category experience, you won’t have the confidence to apply an intuitive approach.”

It’s a challenging task. One in four global retail leaders surveyed for Korn/Ferry’s 2010 report What’s in Store? named “creating the new and different” as a critical competency gap in their executive teams.

In a market crying out for new products to entice shoppers, finding people bursting with new ideas is only one challenge for consumer brands: Great execution of the ideas that make it through the gate is then the critical differentiator. However, the majority of business leaders Korn/Ferry spoke to admitted that their business was better at producing new ideas than at getting them out into the market successfully and sustainably.

Korn/Ferry research shows that innovation skills are among the hardest to develop internally (Lombardo, M. M. & Echinger, R. W. 2007). To foster the right “genetic makeup” in their executive teams, consumer brand leaders need to identify individuals who show proven skills in developing and implementing new products and ways of doing things.

The most effective way to do this is by using organisational development and resourcing functions that actively select candidates across all key functions by assessing their strengths in crucial innovation competencies. This new talent can then incubate innovation as a brand leader integrates them into the organisation.
Candidates should:

- Have a track record that includes: generating and implementing new ideas; leading change; and taking qualified risks.
- Question, experiment, research and analyse, yet be willing to make decisions without knowing everything.
- Be able to communicate new ideas, engage all stakeholders, and collaborate across the business.
- Have or want a profile as an innovative leader, and spend their personal time creatively.
- Once new ideas have been well thought-through, demonstrate a track record of outstanding execution to deliver sustainable results.

For brand-owners who want to analyse their current innovation process and culture, and to determine whether they need to evolve it, the first step is to look at the business’s mission and strategy. There are no right or wrong ways to innovate, but different strategies require different forms of innovation if they are to be executed effectively. For example:

- A business that seeks to lead the field in brand terms will likely invest heavily in Category, Market and Operational approaches to innovation, whilst occasionally breaking through to Transformational innovation.
- A mid-market operator driving a profitable business as a “me-too” secondary player in the market will focus more on Operational and Market-based innovation, and investment in Category or Transformational innovation is likely to be wasted.
- An own-label producer will excel at reproducing products developed by world-leading brand-owners, working with the trade to maximise quality and minimise costs to offer the consumer quality at a lower price. The focus there is essentially on Operational innovation, though some own-label producers have been more active in pursuing Market-based innovation.

Consumer brand-owners should start with a clear understanding that creating and developing new ideas and managing innovation are both skill sets that are in low supply and take time to develop. More than this, they must decide on the kind of innovation that most complements the business’s mission and strategy, as each form of innovation—Transformational, Category, Marketplace and Operational—has implications for the amount and nature of innovation skills they must find in the people they attract, develop and retain.

“Ultimately at the top of the list of attributes among those truly driving innovation within a business is ‘a willingness to risk being fired.’”

Peter Dart
Founder The Added Value Company, Director WPP Group
If internal candidates with the right attributes can be found, brand-owners should give these individuals assignments that let them flex and stretch those muscles, such as:

- Chairing projects or leading task forces to develop leadership skills.
- Working in turnaround areas that require fresh thinking and approaches.
- Taking on new roles that are cross-function, -market or -channel.
- Launching a new product or process.
- Building and leading an innovation team, including making the business case for the value of innovation.
- Taking on challenging assignments that include tight timetables, tight budgets, and strategic as well as tactical issues.

Once those processes have been put in place, companies need to recognise and reward those who are generating and implementing ideas at all levels.

Innovation efforts should be tracked and made a clear element in measuring business performance. Consideration should be given to long-term incentive plans designed to retain these key skills.

**Concrete steps toward an innovative future**

Britain’s economy may have slowed, but the pace of change has not. Consumer brand-owners are adapting to dramatic changes in the marketplace, even as budgets are tightening. Investing in the right mix of innovation and the talent and structures required to execute that innovation effectively is vital.

Korn/Ferry recommends the following practical steps for FMCG leaders to create an environment infused with innovation.

**Measure the success of the existing approach to innovation.** How effectively does the organisation analyse the opportunities and risks inherent in creating new categories or entering adjacent ones? Assess which forms of innovation are appropriate to realise the business strategy, whether Transformational, Marketplace, Category or Operational, or some mix of these.
Assess the processes and structures. What formal or informal systems are in place and are these the right ones to execute the chosen forms of innovation? How committed is the organisation to innovation in the longterm and how good is the organisation collectively at learning, adapting, and correcting the course of innovation?

Audit innovation talent. What degree of innovation skill and experience exists among those driving innovation? If a skill gap is preventing the successful execution of the chosen forms of innovation, develop a plan to closing it through recruitment or organisational development, or both.

Consider an innovation lab or hub. On- or off-site, an innovation incubator or team that operates separately from the core business can stimulate and implement new business ideas. Alternatively, encourage cross-functional “innovation hubs” throughout the business, whether formal or informal. Reward teamwork, and defuse “groupthink” by ensuring that innovation teams are diverse.

Reward sustained innovation. Create compensation structures that can reward successful innovation that is delivered beyond the typical three-year tenure of a CMO, General Manager, Global Category Head, or other relevant functional lead.

Embed an innovation ethos. This must come from the top of the organisation: If it is important to your strategy, innovation must be central to the CEO’s agenda and be regularly reviewed by the board.

Balance power within the global matrix. Ensure that the balance between global category organisations and geographic P&Ls is one that encourages and does not block innovation.

Engage the board. Particularly engage the help of non-executive directors who have innovation experience to broaden perspectives and networks. Consider an advisory board specifically to support forms of innovation appropriate to the strategy.

Talk it up. If the strategy dictates, which is almost always the case for brand-owners, put the right form of innovation at the heart of your vision for the company. Showcase new ideas. Celebrate honourable failures along with the wins. Convince the risk-averse about the power of innovation. It’s the key to your future.

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