

Harnessing the Power of Collective Innovation

Technology makes it possible to leverage the knowledge and creativity of the crowd throughout the innovation process

BY ALEX SLAWSBY

Despite its widely acknowledged importance, for many companies innovation is still frustratingly fleeting and unpredictable. This unpredictability is largely due to the fact that pesky humans drive the process. The same managers and executives that are essential to organizational processes often stand in the way of organizational innovation.

Meanwhile, research has made clear that employees, as well as people outside company walls, comprise a rich source of “collective intelligence.” Yet few organizations take advantage of the knowledge and creativity contained in this collective intelligence to aid the innovation process.

However, advances in technology, coupled with emerging technologies that more easily enable large-scale collaboration, now make it possible for organizations to easily leverage such collective intelligence to greatly improve the odds of successful innovation.

The time is right for what we call “Collective Innovation.” A strategy involving customers, employees, partners, and even individuals far removed from the organization itself, Collective Innovation injects powerful measures of insight, experience, objectivity, and iteration into each stage of the innovation process.

In this first part of a two-part series, we will lay out the theoretical

see ‘Collective Innovation’ on page 13

Transform for Growth

Organizations must re-create to compete—but most don’t know how

BY SCOTT D. ANTHONY & KEVIN BOLEN

Transformation. The word oozes with potential. Shed the skin of the old and embrace the new. Emerge better, stronger, more powerful.

Companies are increasingly recognizing that mastering transformation is becoming a competitive imperative. As formerly isolated markets collide and competitors from emerging markets hone disruptive approaches, product life-cycles are shrinking and competitive advantage is dissipating more rapidly than ever before.

Case studies of sweeping organizational transformation—Nokia moving from rubber boots to mobile phones, Kimberly Clark shift-

see ‘Transform’ on page 6

INSIDE



The Year in Preview: 2008's Headlines Today

What innovation-related headlines might show up in the business press this year? Our predictions involve the iPhone, green companies, Wal-Mart and Sam's Club, Southwest Airlines, and local TV stations. Plus: Is this the year RFID will change the consumer packaged goods industry? [See page 10](#)

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Voices of Disruption

BETH HIGBEE

Each issue, we feature a first-person account of disruption. This issue features Beth Higbee, SVP/GM of emerging ventures for Scripps Networks, a leader in lifestyle media whose brands include HGTV, Food Network, DIY Network, Fine Living, and GAC. Previously, she helped to launch Snap.com/NBC Internet and helped found the original new media division at Rodale, Inc.

After an energetic six-month apprenticeship with Innosight, Scripps Networks went solo last July with a full-time unit to launch profitable businesses that fit the profile of disruptive innovation.

I was spirited into leading this unit by Scripps Networks' business development lead, Ron Feinbaum, who was also my former boss at the company's interactive division. To round out our small team, I hired analytics/tech whiz Chad Parizman from Scripps Networks' interactive research group, and savvy start-up enthusiast Lynn Hahn, most recently of ESPN Outdoors. Immediately, we began to focus on evaluating and developing new

businesses. At the same time, we began to train our 1,400 employees on the concepts of disruptive innovation, with the goals of eliciting real business proposals and inspiring our workforce to greater agility and creativity.

So far, we've done pretty well. Within a matter of months, we've launched our first business, led a team from idea to prototype stage on a second business, received more than 15 serious business proposals, gone to research on two more ideas, and motivated more than 200 employees. As one of very few media companies formally plucking its way to disruptive innovations, however, we've also made plen-

ty of mistakes. We've learned a few valuable lessons that we hope will lead to a successful media model.



Become best buds with people in Legal, Finance, and Human Resources. Every division employs a few eager souls yearning to burst free of Compliance Central. Our beacons within Legal, Finance, and HR have navigated us to corporately responsible ways to manage expectations for what could be a very short-lived business.

For our first business, our Finance friends found a way for us to use PayPal without requiring complicated spreadsheets to detail costs and revenues over five years. Our buddies saw that a three-month test wouldn't be well served by a five-year strategic plan. Instead, we found ways to capture and report information that helps us both.

Expect to tease out the disruptive elements of proposals. Often, ambitious plans bury the true nuggets of a disruptive business like bad news is often buried in an earnings report. To unearth those, we meet with the idea submitters in person or over the phone, ask lots of questions, take lots of notes, and essentially act like journalists without the ruffled shirts.

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Innosight is a boutique consulting and training firm that helps companies improve their ability to create innovation-driven growth. Its unique methodologies and proprietary tools facilitate the discovery of new, high-growth markets and the rapid creation of breakthrough products and services. Its approach builds on the research of its founder, Harvard Business School Professor Clayton Christensen, author of *The Innovator's Dilemma*, *The Innovator's Solution*, and *Seeing What's Next*. For more information, visit our website at www.innosight.com, call us toll free at 1-877-934-7787, or email us at inquiries@innosight.com

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Just recently, one of our potential pilot businesses started as a “one-stop shop” for wedding planning. After three weeks of hour-long meetings each Thursday, the team narrowed the idea to two potential outcomes that utilize customization and locale. We’re well on our way to a refined prototype. Listening to someone with an idea for just 10 minutes can encourage even the shyest genius to consider proposing a multimillion-dollar idea.

Find the true champions to lead a business. We’ve learned passion often succeeds where resources can’t. If we’re not showing the enthusiasm required to cold-call potential customers or to market a product by, say, wearing giant foam outfits in public, then we need to find someone who does. We don’t want lackadaisical leadership to thwart a business.

We recently hand-selected an internal candidate whom HR would call “a high-performing, high-potential employee” to manage our first start-up business for up to 90 days. Thought of as a fellowship, this temporary assignment allows this reputable manager to gain new operational skills while his experience and interest in the topic frees us to test other ideas. Scripps Networks is working toward making this MBA-style internship a permanent program for other rising stars.

Admit when we don’t know the answers to everything. Frankly, we don’t and won’t. As a result, we’ve often gained support from colleagues because they appreciate our candor and truly want to help out. We’ve also picked up more intelligence because difficult questions force us to research the answers.

During our training sessions, we constantly try to update the examples we use to illustrate concepts. Recently, an employee suggested IdleAire, an innovative long-haul trucking service that most of us didn’t recognize, and it has now become a new training example.

Revector ourselves, not just our businesses. We often hear that startup businesses change their course at least four times before reaching success. We expect we’ll do the same with the way our team works, and we’ve already started.

About two months into our formal teamwork, we evaluated our early performance with our board of advisors. The six-member board’s out-of-the-daily-grind perspective helped us to solidify our focus on developing new businesses first, managing operations second, and training employees third. While we may feel we’re already “good enough” at fulfilling our responsibilities, we fully expect to change our objectives again in another two months.

Failure is cool. With high-profile companies admitting doubts, from Rupert Murdoch publicly questioning the ability to make a profit off MySpace to Peter Kim from Merck radically reversing the stigma of reporting fruitless research, it suddenly seems trendy to celebrate potential failure. Certainly our employees look relieved when they hear it’s OK to fail. Anyone would agree, however, that failure is only cool if we find a way to succeed.

For instance, we started a project that involved a fixed-fee service exchange where we’d make our money off transaction fees. Great idea, no customers. We failed to

anticipate our target audience’s true enthusiasm for fixed-fee services. As a result, we’re looking to translate this functionality to other audiences who want it more.

Lay off the jargon. Our most important audiences are often our most cynical. Sure, we still plan to copyright the acronym we so cleverly devised to represent our favorite disruptive concepts: WRENCH© (Who, Reasonable, Easy, Nonconsumers, Cheap, Holes). Very soon, however, we think we’ll have reduced our jargon dependence by 30 percent. We get better participation, more succinct proposals, and more gracious assistance when we actually make sense.

Pretend the corporate card’s your own. If we won’t pay for a service or product on our own, why should the corporation? We want to learn fast and cheaply.

We spent nearly \$200,000 on our first business. In the TV/online world, that equates to the cost of one TV show episode or a small website redesign. Not bad for an entire business from conception to pilot market! Had we personally launched this business, however, we certainly would’ve slashed a few zeros from that figure. Despite our best attempts at frugality our first time out, we plan to refine more garage-band cheap going forward.

One truly surprising insight, however, is that even big companies like EW Scripps can get behind disruptive innovation. We’ve seen peers, subordinates, and superiors eagerly volunteer to shift ingrained behaviors and processes. Goes to show that everyone likes to get a little disruptive now and again. ♦

Reprint # 060103

Innovators' Update: Kodak's Disruptive Bet

Will a low-cost printer play help revive an American icon?

Each issue, we'll take a look back at a past Innovators' Insight to see how our analysis has held up. In this issue, we look at Insight #82, "Assessing Kodak's Printer Plan." The insight was cautiously optimistic about Kodak's printer play. What has happened since?

For the last decade, Eastman Kodak Co. has been the poster child for how a disruptive innovation—in this case digital imaging—can plunge even the best-run firms into crisis. Over the last 18 months Kodak has worked hard to turn the forces of disruption to its advantage, with so-far mixed results.

Kodak has shifted its consumer imaging strategy from a focus on image *capturing* to image *sharing*. It has de-emphasized digital cameras, where fierce market competition makes profitable growth difficult to achieve. Its online photo sharing site, Kodak EasyShare Gallery, draws more than 20 million consumers, a number that admittedly still trails behind Yahoo!'s Flickr.com.

Kodak's boldest bet is an inkjet printer that it hopes disrupts the \$50 billion home printing market. The key to Kodak's strategy is a revolutionary printing technology that allows it to dramatically decrease the amount of ink used. That allows Kodak to charge very low prices for inkjet printing cartridges. Its business model contrasts to market leader Hewlett-Packard, whose inkjet division derives the lion's share of its profits from replacement inkjet cartridges.

Are market conditions ripe for a disruptive approach? Consumers definitely gripe about the high cost of inkjet cartridges. Yet it is unclear whether those high costs actually

inhibit home printing, particularly of pictures. Perhaps the complexity of the picture printing process—not the cost of the inputs—stops home-based printing.

After all, why do people print pictures? One simple reason is to have a way to share memories with visitors. A simpler, easier way to do this is to use a digital photo frame that shows constantly rotating pictures. While Kodak competes in this market, its products trail behind those offered by Philips.

Also, Kodak's strategy assumes that consumers consider total ownership costs when making purchasing decisions: Kodak's printers actually cost more than comparable printers offered by HP, Lexmark, and Canon. While corporate purchasers controlling large budgets carefully consider total cost of ownership, it is less clear that multi-year ink purchases factor into consumer purchase decisions.

Regardless, the home printing market is big enough that Kodak could create a meaningful growth strategy by simply capturing a sliver of the market. Was the cautious optimism we expressed last year warranted?

While reviews of Kodak's initial line of printers were decidedly mixed, Kodak's product might just be good enough to establish a foothold in the market. Kodak sold 520,000 printers in 2007, exceeding

its target of 500,000 printers. A recent search on Amazon.com found that the 5300 EasyShare printer ranked eighth among multifunction devices, behind four Canon printers, two HP printers and an Epson printer.

HP responded to Kodak's disruptive incursion quite predictably—it cut the unit price of its inkjet cartridges by 30 percent, while lowering the unit volume by more than 50 percent. In other words, HP responded to a low-cost incursion by *increasing* the price per ounce of its inkjet cartridges.

In a November analyst call Kodak admitted that the introduction of its inkjet line of products has suffered hiccups, such as uneven distribution and product quality issues. It claimed, however, that these issues are typical for a widespread launch of a new product. It still believes that it can build a \$1 billion printing business by 2010.

Two big questions remain. First, will Kodak sharpen the disruptive edge of its printer play by improving quality and lowering cost? If Kodak can't address the kinks that have inhibited uptake, its disruptive foray is likely to disappoint.

Second, does Kodak have any other disruptive developments in its pipeline? Even a \$1 billion printer line won't be sufficient to return the company to prominence in the near future. Demonstrating the ability to launch a steady stream of disruptive growth ventures, however, could make Kodak the poster child of a company that learned how to turn disruption from a threat to an opportunity.

— Scott D. Anthony

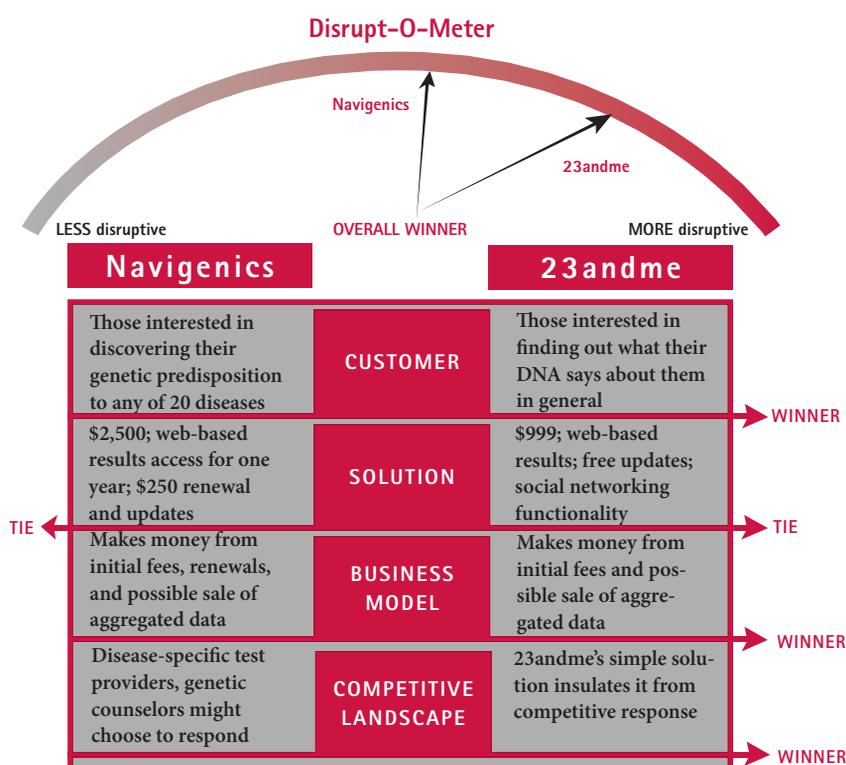
Reprint # 0605104A

Disrupt-O-Meter

Tale of the Disruptive Tape: Navigenics vs. 23andme

“Is company X disruptive?” Whenever we’re asked this—which is often—we run through a simple checklist that looks at the target customer, the solution, the business model, and the competitive landscape. In this issue, we analyze two startups in a very new field—retail genomics.

Last November, startup 23andme began to sell personal genomics reports for about \$1,000. At the same time Navigenics launched, providing a similar service for \$2,500. Both use similar technology—a gene chip that can sort at once through a million gene variants called single nucleotide polymorphisms (SNPs). These SNPs are very small alterations in DNA that result in differences in how someone is predisposed to or protected from diseases. SNPs also reveal clues about ancestry and where those green eyes came from.



More Disruptive: 23andme Retail genomics is already encountering skepticism about scientific soundness, insurance, and privacy. In January, the *New England Journal of Medicine* predicted ominously that patients with personal genome data will expect counseling their doctors won’t be qualified to give. Navigenics offers genetic counseling, while 23andme sidesteps the skepticism with a more compelling approach, focusing its service more on personal knowledge than disease prevention. 23andme also brings social networking to genomics, which should help it quickly build a large database. Selling aggregated genomic data to pharmaceutical and device companies will be a much larger market than selling genomic reports to consumers. It’s telling that Google has invested in 23andme, despite potential conflict—a 23andme founder is married to Google’s Sergey Brin.

Reprint # 060105A

EMERGING TECHNOLOGY WATCH

Wii Technology Moves Past the Game

The same ingenious controller that made the Wii a popular gaming system has begun to spawn new technologies. In January, Washington, D.C.-based **Cynergy Labs** launched Project Maestro, a Rich Internet Application (RIA) interface that uses infrared gloves integrated into a multi-touch Microsoft Windows Presentation Foundation (WPF) application. The glove allows users to interact with and navigate a Windows application without using a mouse or touching the computer. Says the company, “this interface could be used in such business software applications as facilities management, scheduling solutions, [and] data mining ... anywhere that users need to interact with complex visualizations to make rapid snap decisions.” Technology based on the Wii remote is also being used to develop head-tracking systems that allow users to control their computer through head movements, and interactive whiteboards that can be written on with infrared pens.

Pocket-Sized Printer Needs No Ink

This summer, Polaroid spinoff **Zink Imaging** will begin to sell a printer the size of a deck of cards, aimed at teenagers wanting to print photos directly from their cell phones. The printer will receive images via Bluetooth and print those images using thermal technology. Because it’s thermal, the printer won’t require costly ink cartridges, though the thermal paper will cost 30 cents for a photo-sized page. Eventually Zink is hoping to embed similar ultra-small printers directly into mobile phones and digital cameras. Other potential uses: real-time printing for coupons and boarding passes.

Magnetic Cell Therapy Can Solve Problems Caused By Stents

Researchers at **Children’s Hospital of Philadelphia** have developed a cell-based magnetic technology to improve stent-based cardio therapies. The technology involves using tiny iron-bearing nanoparticles and a magnetic field to direct cells with therapeutic properties to the sites of steel stents. The cells could help repair arterial damage and prevent clotting. The same technology could be used to deliver either drugs or therapeutic cells not just to cardiac stents but to any kind of stent, as well as to other steel implants, such as those used in orthopedics.

Reprint # 060105B

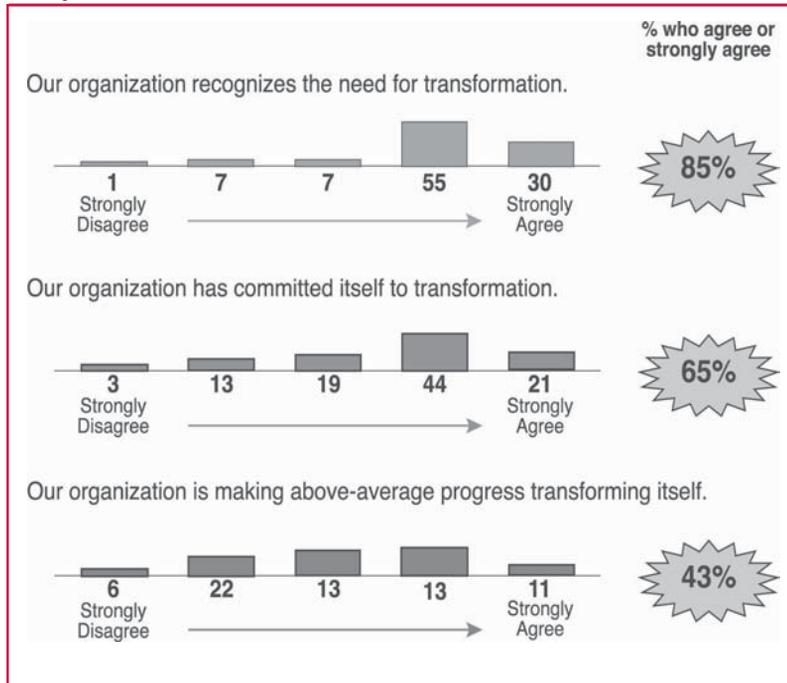
ing from a paper provider to a consumer packaged goods leader, Apple sextupling its stock in five years after a decade of stagnation, Google going from a technology company to an advertising powerhouse, Procter & Gamble hopping from soaps, to laundry, to skin care, to health care—show that success at transformation is possible.

But the breathless hype behind these stories obscures a brutal reality: most efforts at transformation fail miserably.

This unnerving and frustrating reality should not be a surprise. After years of pervasive “continuous improvement” programs, ex-

Perspectives on Transformation

All figures in percentages. n=260



they have the necessary focus, tools, and talent to drive meaningful growth from within?

Their answers are sobering for any executive telling investors about their deep commitment to “growth through innovation.” Most survey respondents said their company is struggling with transformation and they don’t know quite what to do about it (see

Perspectives on Transformation,

at left). However, there are signs of hope. In this article we blend insights based on this research as well as our field work to provide guidance for companies seeking to master transformation.

ecutives are reaping what they have sown. Their organizations, from executives down through to the rank and file, have been motivated and compensated to focus on incremental improvement measured quarterly and annually along competitive performance parameters established years before.

To expect this system to create the breakthrough innovations that power transformation is simply unrealistic. Years of continuous improvement training have caused corporate innovation muscles to atrophy.

To ascertain the scope of the transformation challenge, Innosight surveyed more than 300 managers, directors, vice presidents, and senior leaders from a wide range of companies (see **About the Research**, at left). We asked these practitioners whether their company was walking the talk around their transformation efforts. Did

at left). However, there are signs of hope. In this article we blend insights based on this research as well as our field work to provide guidance for companies seeking to master transformation.

A Multi-Faceted Problem

“How do you transfer intent into sustainable and reasonable organizational action?” One respondent suggested this is the most important question to answer to make progress on transformational efforts. This question lies at the heart of most organizational struggles around innovation.

It is clear that practitioners bent on transformation face a steep challenge. They have to address a multi-faceted problem with unclear answers and inadequate tools. Our research and field work over the past 10 years suggests that transformation requires four interlocking elements: dedicated re-

About the Research

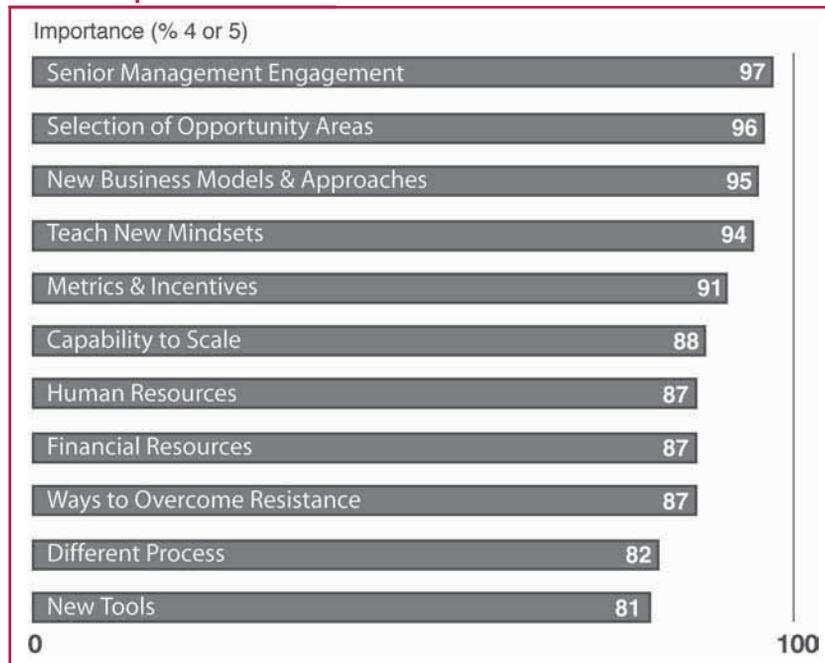
Innosight administered an online survey to 3,200 individuals on October 31, 2007. More than 300 respondents filled in at least a portion of the survey, with close to 250 respondents completing the entire survey.

The 25-question survey included a mix of open-ended and quantitative questions aimed at capturing basic demographics, discovering respondents’ views on transformation, understanding the importance respondents place on transformation, and their opinions on whether they had the tools, the conceptual understanding, and the ability to successfully implement transformation.

sources, lead opportunities, tools and processes, and appropriate mindsets.

Transformation is about change, and so the resulting acronym—DeLTA—is appropriate. We asked survey respondents detailed questions about 11 specific factors related to transformation that fit into these four categories:

Factor Importance



for transformational initiatives. Standard processes and procedures can subtly re-shape transformational ideas so they resemble what has been done before. However, separate processes can foster transformational potential.

Appropriate metrics and incentives for transformational efforts. What gets measured gets done. Even the best

Dedicated Resources

Human resources dedicated to transformational efforts. In many organizations, the scarcest resource isn't money, it's time.

Financial resources dedicated to transformational efforts. Organizations can struggle with transformation because natural forces within the company allocate financial resources towards core initiatives. Dedicated financial resources can avoid this trap.

Senior management engagement and leadership. It is hard to overcome the hurdles inhibiting transformation unless senior management actively engages. Transformation is rarely accidental.

Lead Opportunities

Selection of opportunity areas for new growth efforts. Companies bent on transformation sometimes think they ought to let chaos reign. Our experience is that strategic selection of opportunity areas is

a critical component of success.

Development of new business models and approaches in specific opportunity areas. “Doing what we’ve always done” is rarely sufficient to power transformation. Companies need to develop new approaches and at times even challenge their core business model.

Capability to scale new growth businesses that power transformation. Generally speaking, the development of ideas involves an “exploration” period and an “exploitation” period. Managing the second part of this development process is critically important to realize the full impact of transformation.

Tools & Enablers

Utilization of new tools to assess and shape transformational ideas. Any well-run company has tools to manage ideas in its core business—tools that can be ill-suited for nascent opportunities, where judgment and intuition are critical.

Unique and different process

intentioned companies can struggle if they do not have appropriate metrics and incentives to support their transformational efforts.

Appropriate Mindsets

Formal approaches to overcome internal resistance to transformational efforts. Left to their own devices, “corporate antibodies” can severely impact well-intentioned transformational efforts. Specific approaches can help defend against these antibodies.

Mechanisms to teach the new mindsets required for transformation. Getting transformation right can require taking actions that can appear counterintuitive or even antithetical to most managers. Developing a “common language” can address this issue.

None of these factors are by themselves silver bullets. When given the chance to evaluate each criterion independently, 90 percent of respondents said all five fac-

tors are somewhat or very important, and 80 percent said all 11 criteria are somewhat or very important (see **Factor Importance** on the previous page).

This is consistent with our field experience, which suggests that transformation is multifaceted. Throwing money at the problem isn't sufficient if you don't have the right ideas, tools, and leadership. Tools and leadership are worthless without resources. The wrong mindsets can sink the most well thought-out transformational efforts. Simply trying to create a compelling mission statement or adopt a new philosophy is insufficient to drive transformation. A few leadership memos and the addition of "innovation progress" to the monthly metrics package are insufficient: cultural change does not occur through PowerPoint.

Implementation Gaps Across the Spectrum

How are companies doing addressing these factors? We see more diverse answers to this question. The chart above shows "implementation gaps" measuring the difference between a factor's importance and the degree to which companies report implementing the factor. All figures are indexed so the largest overall gap represents 100.

While there are gaps across the board, five factors clearly stand out as having the most pressing gaps:

Implementation Gap



Teaching new mindsets. Managers conceptually understand that organizations need to think differently in order to act differently. Trying to change mindsets that have ossified after years of following particular patterns is difficult, however. Our experience suggests starting with a small group and utilizing tangible projects to allow people to "live" new mindsets. Mission statements or platitudes are not enough. You must create the space for people to act in different ways and experience for themselves how different ways of thinking can be valuable.

Metrics and incentives. Typically, a company's metrics and incentives encourage doing what has been done in the past. These metrics and incentives can penalize managers who act differently and take even well-thought-out risks. Our field work suggests developing comprehensive innovation metrics that look at inputs, the innovation process, and outputs, and provide discrete ways to measure discrete

types of opportunities. Innovation is risky, so it is also important to avoid penalizing "good failure," when a team learns early on that their idea is not viable.

New business models and approaches. It was no surprise that survey respondents reported struggling to master new business models and approaches. While managers generally understand the power of business

model innovation, few established companies have demonstrated the ability to innovate their business model.

A good starting point is to blueprint your current business model and look for opportunities to do things differently. Another approach is to look for opportunities to "borrow" a proven model from another industry.

Ways to overcome resistance. Doing things differently inside established companies is very hard. Powerful internal forces, resident in a company's people, processes, and prioritization schemes, can reshape transformational ideas so they resemble what has been done before. Providing adequate organizational space is critical to make sure these "antibodies" don't derail transformational efforts.

Senior management engagement. As noted, transformation is not accidental. We never recommend that middle managers try to drive transformation without the active support of senior

leadership. If your senior leaders don't yet get it, try having a focused discussion around early warning signals of long-term struggles. Showing how signals fit historical patterns can get senior management aligned around the need to act differently.

Perhaps most distressing to leaders seeking to transform their business will not be the list of issues themselves but the lack of confidence the respondents had in their ability to overcome them. Fewer than 50 percent of respondents said they have the tools and ability to address these most critical gaps; even worse, fewer than 50 percent of respondents report even *conceptually* understanding how to teach new mindsets, develop appropriate metrics, and overcome internal resistance (see **Areas to Address**, above).

Hope is not lost. More than 100 respondents said their companies are making above-average progress on transformation. They report greater progress on allocating resources and working on lead opportunities.

It's sensible to start with dedicating resources and selecting lead opportunities. Why? Consider the companies cited by survey respondents as the leaders at transformation—Apple, GE, Google, Toyota, IBM, and Procter & Gamble. Interestingly, the creation of new product lines or business units or acquisitions and divestitures drove these transformations.

Apple's most obvious success is

Areas to Address

n=221

	% agreeing or strongly agreeing that they have...	
	Conceptual understanding	Tools & ability to implement
Teach New Mindsets	49	35
Metrics & Incentives	44	30
New Business Models & Approaches	55	40
Ways to Overcome Resistance	47	31
Senior Management Engagement	71	49
Capability to Scale	51	35
Selection of Opportunity Areas	71	53
Human Resources	62	38
Different Process	45	32
New Tools	47	32

the iPod line. P&G has introduced new brands like Swiffer and stepped up investment in health and beauty products. Google seems to enter a new market every month. IBM has moved aggressively into services. General Electric has bought or sold dozens of businesses over the past few years. Toyota's Prius leads the hybrid market.

Almost always, the best way to start transformation is to develop tangible growth businesses that move the company in a different direction. And this can only happen if companies allocate resources towards innovation. After getting "points on the board," companies can expand their efforts to develop tools and appropriate mindsets.

Summary and Implications

Transformation is not for the fainthearted. Getting it right requires simultaneously managing multiple challenges.

Companies desiring to transform themselves should consider these lessons from the survey and from Innosight's field work:

Ensure you have a very senior champion. Transformation doesn't happen by accident. If senior management isn't actively leading, efforts are likely to fail.

Focus on resource allocation first. It doesn't matter if you have great tools and a well-honed process if there are no human resources to utilize the tools and no money to fund ideas.

Don't expect immediate success. Given the large number of factors important in transformation,

pushing for a big bang will likely lead to disappointment. It's critical to start small.

Prioritize tangible projects over intangible cultural change efforts. Remember, culture is a lagging, not a leading, variable. Culture changes when people change what they do and how they interact. Working on tangible projects can be a way to force these changes.

Creating new mindsets is difficult, but possible. Developing training modules that build common language or specific skills, developing internal networks of advocates, and running idea-generation sessions with a cross-functional group of managers can be useful starting points. ♦

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Reprint #0601016

The Year in Preview: 2008's Headlines Today

We predict headlines that might well show up in the business press this year.
Plus: Could 2008 be the year RFID transforms consumer packaged goods?

BY SCOTT D. ANTHONY

It seems that the pace of innovation has increased markedly over the past few years. Formerly isolated markets are colliding. New technologies pop onto the scene at a breakneck pace. The world might not be flat, but competitors can legitimately come from anywhere. No-name companies are turning into titans seemingly overnight. As an example, Facebook went from a dorm-room operation in 2004 to a \$15 billion valuation in 2007.

The increasing pace of change makes forecasting tricky. Markets change so quickly, extrapolating past trends can miss the mark. Data becomes outdated almost as soon as it becomes available.

Turbulent times make it increasingly important for forecasters to make ample use of theory. The right theory can allow forecasters to understand subtle signals before data becomes clear.

In *Strategy & Innovation*, we aim to provide our readers with the tools to use the theories and models of disruptive innovation to assess developments that matter to them. Here we put the theory into practice by describing five headlines we could imagine seeing in *The Wall Street Journal* in the next 12 to 18 months.

1. Southwest stumbles

Low-cost pioneer Southwest Airlines has been the leading light in the turbulent airlines sector over

the past 30 years. While its competitors have gone through boom-and-bust cycles, Southwest's investors have felt the airline living up to its tongue-in-cheek stock ticker symbol "LUV." A dollar invested in Southwest in 1974 would be worth more than \$1,200 at the end of 2007—a remarkable 36 percent annual return for more than 30 years.

Why be concerned about Southwest's future? While it would seem Southwest's success traces solely to its low prices, in fact a large driver of its success has been targeting out-of-the-way, point-to-point routes between secondary airports. Flying these routes has isolated it from fare wars and given it substantial headroom for expansion.

Now Southwest has gotten so big that it has to deviate from this strategy to meet its growth objectives. In 2004, it entered Philadelphia, a major US Airways hub. Predictably, US Airways slashed prices to defend its turf. While Southwest's low cost structure allows it to survive these price wars, constantly fending off such competitive attacks inhibits Southwest's ability to grow profits at rates that match its historical growth rates.

Southwest is beginning to look more and more like a traditional airline. It is bolstering its frequent flier program, offering reserved seating, and charging higher rates for business travelers. While it has remained profitable, its stock has

moved sideways over the past couple of years. Don't be surprised if 2008 is a very tough year for the carrier as the market senses that one of its darlings has lost its differentiation.

2. The iPhone hits targets, but at what cost?

A recent *Wired* article described how Apple invested close to \$150 million to launch its iconic iPhone. The phone has generated unprecedented hype and won accolades from design aficionados.

There's just one problem with Apple's approach: it has also attracted tremendous attention from every mobile phone manufacturer. Motorola and Nokia have stepped up investments in phones with touch screens or other iPhone-like design elements. And the iPhone continues to have its own set of issues, such as sluggish Internet access, expensive access plans, and customer complaints about the lack of a removable battery and poor sound quality.

As competitors focus on competing against Apple, expect Apple to step up its own investment to fend off counter-attacks. While the iPhone might meet CEO Steve Jobs' goal of 10 million units sold by the end of 2008, Apple will only build a sustainable iPhone product line through spending massive amounts of money. This is the challenge of what is inherently a sus-

taining strategy in an established market: Gaining market share requires substantial spending.

3. Wal-Mart pressured to sell off Sam's Club

Wal-Mart has struggled in its efforts over the past few years to develop a winning growth strategy. Last year it announced plans to deemphasize top-line revenue growth and focus more on generating bottom-line profit growth.

As its revenue growth continues to be sluggish, expect analysts to increasingly raise questions about the viability of Wal-Mart's Sam's Club warehouse club offering. While the offering has a reasonable share of the warehouse club market, it lags far behind market leader Costco Wholesale Corporation.

The warehouse-club business model—featuring lower gross margins, larger purchase sizes, and faster inventory turns—is fundamentally disruptive to Wal-Mart's core discount retailing model. Running two economic models in the same company is difficult.

A few years ago, Wal-Mart announced that it was bringing Sam's Club closer into its core business, ostensibly to reduce what seemed like duplicate investment in functions, such as inventory management and purchasing.

Disruptive theory, however, suggests that this kind of move will decrease Wal-Mart's ability to follow the model necessary to optimize warehouse clubs. As Wal-Mart's top-line growth slows and analysts increasingly focus on margins, it is very likely that Wal-Mart will come under pressure to spin off an offering that seems profit dilutive.

4. Record year for local television masks challenges

We've covered the disruptive forces in the media industry extensively. The music industry felt disruption first, then newspapers and magazines. In 2007 disruptive forces began affecting television as YouTube and other online video services gained further traction.

There are clear signs of trouble in the television business. Ratings have been on a 20-year slide. The rise of digital video recorders (DVRs) allows consumers to skip through the 30-second advertisements that constitute the core of the television business model. Estimates suggest that up to 20 percent of DVR users fast-forward through commercials.

Content providers like Viacom, Disney, and Time Warner Inc.'s Warner Brothers are not sitting idly by. They are actively experimenting with online distribution models and new revenue models. Properly managed, these experiments could allow incumbents to avoid the difficulty that has plagued their cousins in other parts of the media world.

One part of the television world that faces more dire threats is local television stations. These stations feature some original programming, mainly news and weather, but primarily rely on using syndicated third-party content, some of which is network programming they are obligated to carry, some of which is third-party content.

As content providers increasingly turn to the Internet to distribute content directly to consumers through Web sites like Hulu.com or via Apple's iTunes store, local television stations run the risk of

being cut out of the equation.

2008 will be an interesting year for local television stations. An intense, wide-open campaign for the U.S. Presidency means that there will be huge amount of local television advertising. Leaders who oversee these stations might be tempted to look at 2008 financial figures as vindication that the threat of new content models is overblown.

These leaders would be wise to look past this year's figures. Oftentimes when disruption strikes there is a "last gasp" effect. Local television advertising could plunge off a cliff in 2009, hurting all but the most forward-thinking stations.

Compounding this problem is the ongoing writer's strike, which has been a boon for Internet-delivered content. If the strike does materially change viewing habits, local stations might face difficulties sooner than anticipated.

5. The green bubble deflates

Venture capitalists poured money into so-called "green" technologies at unprecedented rates in 2006 and 2007. As investment ramps up, the risks of a market bubble increase. While that could make it more difficult for companies to follow disruptive strategies, recent history suggests it would be wise to continue to bet on disruptors.

Following disruptive approaches in bubble periods is difficult. When money floods into a sector, investors with ever-increasing sums to invest seek businesses with massive revenue potential. Innovators trying to support massive revenue projections seek out large, established markets. The only way to serve those markets is by offer-

ing superior technological performance. For many green technologies, that means solving incredibly difficult technological challenges.

As the bubble expands, companies working on legitimately disruptive ideas will face intense pressure to deviate from the disruptive path. They would be well suited to remember what happened when the Internet bubble burst. Many of the hotly hyped flameouts were companies seeking to wedge into large, established markets. The companies that emerged as market leaders after the bubble burst were legitimate disruptors, like Amazon.com, Google, eBay, and Netflix.

Investors pouring money into green technologies would be well served to look not just for the latest gee-whiz technology, but for legitimately disruptive offerings, where innovators have developed different ways to target the low-end of an existing market or to reach nonconsumers.

For example, a green bubble burst wouldn't stop disruptive developments such as Magenn Power's unique wind turbine model, First Solar's affordable solar panels, or SunEdison's solar financing model.

Using Disruption to Predict

Increasing turbulence doesn't mean that market forecasters

should throw up their hands in frustration. The disruptive models can help to spot potentially game-changing companies early and to analyze the competitive actions that determine ultimate success.

The process is straightforward: Scan fringe markets to spot entrants with disruptive ways to solve critical problems. Observe how those companies expand beyond their first commercial application. Watch market leaders respond. Use the patterns of disruptive innovation to more confidently see what's next. ♦

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Will 2008 be the year RFID finally breaks out in the CPG industry?

Radio-frequency identification (RFID) technology has been widely acknowledged to have the potential to significantly change the consumer packaged goods (CPG) industry. The reality has yet to live up to the high expectations. Could 2008 be the year?

RFID is wireless technology that links "tags" (transponders) with "readers" (receivers). The tags contain information that can be read by a reader in range. For example, if you flip through a new book, a small, shiny square may fall out from between the pages; were someone to walk out of the store without paying, that little square—an RFID tag—could alert the staff.

In 2003, Wal-Mart mandated that its largest suppliers put RFID tags on cases and pallets. Pundits expected the CPG industry to quickly adopt the technology, both to benefit from RFID use in supply chain management and to maintain standing with retailers.

However, results were not as expected. Wal-Mart installed RFID in distribution centers more slowly than anticipated, and some suppliers voiced concerns about the expense of RFID and the low returns associated with the investment. Five years after the mandate, Wal-Mart's RFID efforts have shifted focus.

Widespread adoption of RFID in the CPG industry isn't likely to occur until a sufficient value proposition to CPG players emerges. This value proposition is likely to be found where the expectations are highest—using RFID to track each individual item in the supply chain by acting as a high-tech bar code.

Recall that bar codes themselves were a significant technological innovation. The bar code system took decades to be adopted, yet today it is pervasive.

Retailers such as Wal-Mart have good reason to push for RFID use—they stand to benefit significantly from it. Whether for loss prevention or to enhance the consumer experience, retailers have clear jobs-to-be-done for which RFID is a solid solution, and therefore they have an incentive to adopt the technology.

As for CPG, the lower margins and higher volume of most consumer packaged goods do not easily allow for the expense of RFID on an item-level basis. That is, the value proposition for the CPG industry to use RFID for item-level supply chain management is not yet sufficient.

Other challenges have included technological issues, high start-up costs, and issues associated with network effects. For example, the "good enough" bar for RFID applications was initially quite high. Getting the tag and reader advanced enough to perform at the necessary level has taken considerable time and resources.

However, the main challenge to widespread adoption of RFID technology is network effects. While RFID can be used without substantial networking infrastructure, its real benefits come from software functionality and applications in a network. This means software must be further developed and significant financial investments made to create the infrastructure needed to support the widespread use of RFID technology.

Another network-effects challenge is that RFID technology becomes more effective as networks grow, which will reduce costs and create more cohesive, comprehensive networks. However, because RFID has not been widely adopted and the networks are not robust, it does not make sense to some to adopt RFID yet.

It is hard to imagine that RFID will not one day be a global standard for supply-chain management. However, in the short term, different uses and more attractive value propositions continue to emerge. These include the kinds of low-end applications typical of early-stage technological innovations—such as using RFID to track promotional displays to ensure proper placement and display times—applications where "good enough" gets the job done.

These lower-tech applications are also less sensitive to network effects, and could even serve as a catalyst for RFID to move into the mainstream in the CPG industry in the future.

Will the right conditions be in place in 2008 for RFID to take off in the CPG industry? Most likely not. In 2008 we are more likely to see RFID continue to expand in lower-tech applications that may help move it into the CPG mainstream in future years.

The lesson: new technologies rarely achieve immediate industry-wide adoption, and in fact, many never achieve it at all. A more effective initial approach for new technologies can be finding niche applications that can serve as a beachhead for expansion into larger markets.

— Krystin Stafford

underpinnings of Collective Innovation. Specifically, we will first examine the nature of innovation itself and the human-level challenges that it poses for organizations. We will then introduce the concept of collective intelligence and describe its power.

Finally, we will detail Collective Innovation as a logical, powerful next step for organizations seeking to move beyond "Open Innovation." In part two (which will appear in the next issue of *Strategy & Innovation*), we will outline the specific stages of Collective Innovation and our recommendations for how organizations may successfully implement such a strategy.

The Human Challenges to Innovation

Organizations frequently entrust responsibility for tremendously complex and important decisions to individuals whose judgment is likely to be swayed by personal and professional biases. This is particularly dangerous in the case of organizational innovation, where a single decision can mean the difference between riding the wave of innovation or getting caught deep beneath.

There is a better way: Don't entrust organizational innovation solely to individuals. In their aptly titled article, *In Praise of the Incomplete Leader*, Debra Ancona, Thomas W. Malone, Wanda Orlikowski, and Peter Senge write "it's time to end the myth of the complete leader: the flawless person at the top who's got it all figured out . . . only when leaders come to see themselves as incomplete—as having both strengths and weak-

nesses—will they be able to make up for their missing skills by relying on others."

The authors' point is clear and logical—complex decision-making is better left to the collective, rather than any individual. While Ancona et al refer to leadership in general rather than to innovation specifically, we would argue that their thesis is particularly appropriate for organizational innovation.

Innovation is far too important a process for organizations to give single individuals and their biases the power to derail it.

Innovation is a far too important a process for organizations to give single individuals and their biases the power to derail it. Organizational innovation must be a process given to the "many"—what we'll refer to here as the "collective"—rather than the "few" or the "one."

The Collective Is Smarter

Beyond the issues of incomplete individual skills and bias in decision-making, there's also strong evidence that the collective is much smarter than the individual. The knowledge that groups, when properly constituted and leveraged, make better decisions than

individuals is as old as time itself.

Throughout history, kings had advisors, the Greek and Roman empires had senates, and democracies have thrived. The power of leveraging multiple viewpoints to help solve problems and make decisions is significant.

A more current concept is that of collective intelligence, the leveraging of individually held knowledge to jointly generate ideas or solve problems. Collective intelligence is also known as "crowd intelligence," a concept popularized by the 2005 book *The Wisdom of Crowds* by James Surowiecki.

At its core, collective intelligence relies upon the gathering of viewpoints—the greater in number and the greater in diversity, the better.

Surowiecki writes, "Crowds that make the best collective judgments are crowds where there's a wide range of opinions and diverse sources of information, where people's biases can cancel themselves out, rather than reinforcing each other." When properly constituted in this sense, crowds can deliver, on average, better performance than an expert.

The power of collective intelligence extends to the organizational level. At the most basic level, the very definition of "organization" requires the involvement of at least two individuals.

Even an increase from a single individual to a pair of individuals markedly increases the level of objectivity and diversity of experience present. Such objectivity and diversity is critical to successful decision-making.

As Surowiecki writes, "The more important the decision, the more

important it is that it not be left in the hands of a single person...The best CEOs, of course, recognize the limits of their own knowledge and of individual decision making We know that the more power you give a single individual in the face of complexity and uncertainty, the more likely it is that bad decisions will get made.”

Organizations are formed to accomplish a goal or a vision, and multiple individuals contribute the necessary scale of resources and scope of perspectives and talents necessary to accomplish that goal or vision. Collective intelligence is thus one of the central building blocks of organizations.

The Collective Easily Solves Problems

In his book, Surowiecki introduces three types of problems that collective intelligence can solve quite well: cognition, coordination, and cooperation. Organizations frequently struggle with problems of these three types. More importantly, the ability to solve such problems lies at the core of successful innovation.

Cognition problems are those that have one right answer. An example of a cognition problem solved by the collective is the attempt by a crowd to guess the weight of an object.

Coordination problems require an individual to consider the answer that he or she believes to be most correct, given the answer that other people believe to be most correct. For example, Surowiecki describes how research into crowd movement on city streets found that each individual must make

quick, repeated decisions and adjustments of course and speed, in order to enable the whole crowd to make progress without crashing into each other.

Cooperation problems are similar to coordination problems, in that an individual must consider the answers generated by others.

Collective Innovation makes use of the power of iteration, recursion, and large-scale collaboration enabled by today's technologies.

Cooperation problems differ, however, in that the correct answer is ultimately the one that delivers benefit to the group as a whole, rather than solely to the individual.

Surowiecki's examples of cooperation problems included “keeping the sidewalk free of snow, paying taxes, and curbing pollution,” activities that benefit society as a whole, rather than simply benefiting an individual.

As it turns out, cognition, coordination, and cooperation problems—challenges that collective intelligence is particularly well-suited to solve—are some of the biggest innovation-related chal-

lenges organizations face. These types of problems lie at the core of the organizational innovation process—idea generation, idea development, idea prioritization, and resource allocation

Idea generation is a cognition problem. The organization seeks to generate ideas for a specific problem. The potential exists that there is one idea that represents the “best answer” to that problem, and a few or many ideas that represent “good” or “acceptable” solutions to that problem.

Idea development and idea prioritization are coordination problems. Essentially, the process for prioritization, or selecting the best idea for the organization to pursue, utilizes game theory as the organization assesses the possible reactions by all entities to each of its own possible actions.

Resource allocation is a cooperation problem. In order to create value through the ideas and capture as much generated value as possible, individuals within the organization may need to prioritize the best interests of the organization over their own.

A Collective Approach to Innovation

To best capitalize on the promise that collective intelligence holds for organizational innovation, we have developed a strategy of Collective Innovation, which we define as a connected, open, collaborative process for generating, developing, prioritizing, and executing new ideas. Collective Innovation, in essence, is the application of collective intelligence to the innovation process.

Specifically, Collective Innovation begins with the recognition that members of an organization, from the youngest, most inexperienced individuals to the most senior executives, possess valuable knowledge. Collective Innovation also acknowledges that there are thousands, perhaps millions, of individuals outside of the organization whose knowledge can be of value to the organization.

In essence, Collective Innovation requires organizations to listen to their customers, to leverage the knowledge and perspective of partners, and to recognize the distinct possibility that valuable, disruptive or discontinuous ideas may be generated by individuals far removed from the organization itself.

Consider the results of IBM's "Global CEO Study 2006." When asked to identify their most significant sources of innovative ideas, more than 40 percent of 765 CEOs and business leaders pointed to their own employees, more than 30 percent identified business partners and customers, and more than 20 percent selected "consultants" (see **People Power**, at right).

A diverse range of sources, from competitors and trade shows to internal R&D and academia, rounded out the list. Given the myriad array of sources of innovative ideas, why focus on just one or two while your competition may be casting its net much wider?

Indeed, the decreasing cost of communication, combined with growing connectivity, reduces to zero the cost of adding one additional individual's perspective to the collective. Through email, websites, wikis, and blogs, it becomes possible to recruit ideas and input from individuals at the end of the "long tail"—individuals whose

film was invented by a couple of musicians, a watchmaker fooling around with brass castings came up with the process involved in the continuous casting of steel . . . the developers of the jet engine were told by reciprocating-aircraft-engine people that it was useless."

Through the Collective Innovation process, connected tools, ranging from websites and wikis to blogs and internal markets, can be used to harness knowledge and perspective, be they close at hand or in the long tail.

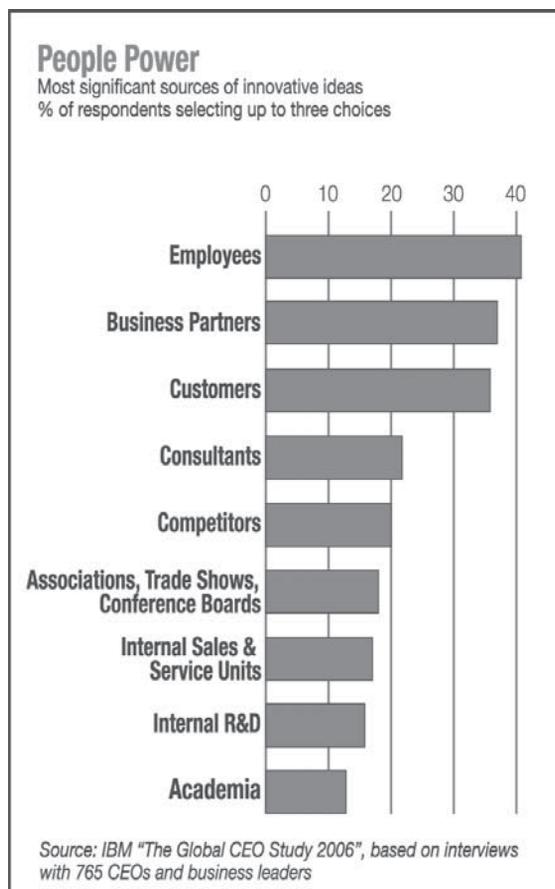
Different applications of collective intelligence, through specific tools, apply at each stage within the innovation process. Collective Innovation makes use of the power of iteration, recursion, and large-scale collaboration. Today's technology and connectivity enable the low-cost, yet widespread collection of human knowledge.

Innovation from Closed to Open to Collective

In the history of innovation strategy, Collective Innovation is a third stage, improving upon the second stage, Open Innovation, itself a great improvement over the first stage, Closed Innovation.

Closed ('Not Invented Here')

Closed Innovation involves companies relying on internal resources for innovation. While this approach has obvious limitations, it was the only practical way to organize for most of the 20th century. Educational institutions were



knowledge may be tangential at best, or who may logically have a low probability of being uniquely valuable in solving a particular problem.

Why cast the net so wide? When British economist John Jewkes studied major inventions in the 20th century, he concluded that at least 46 of the 20th century's 58 major inventions occurred in the "wrong place" . . . Kodachrome

focused on research for science and theory development, rather than commercialization, and the government had yet to heavily fund such research.

Despite technology advancements, Closed Innovation remains the dominant model for research and development in companies both large and small.

Open ('Proudly Found Elsewhere')

As Henry Chesbrough noted in his 2005 book *Open Innovation*, organizations are now recognizing the potential power of the knowledge that lies outside their research and development laboratories. Technology now has made it possible for organizations to take a decentralized approach towards harnessing that knowledge with increasing efficiency.

An Open Innovation strategy strives to infuse an organization's innovation process with inventions and innovations from outside of the organization, while at the same time releasing internal inventions and innovations when their value can be better captured by others.

Most organizations continue to pursue strategies that lie towards the Closed Innovation end of the continuum, with a few, such as P&G, 3M, and Eli Lilly, pursuing strategies that are at best midway along the continuum.

Collective ('Collaborative Innovation')

Collective Innovation builds upon the theories of Open Innovation that suggest organizations should take advantage of technology to weave sources of information together into unions more powerful than the individual sources themselves.

However, Collective Innovation extends beyond Open Innovation in its suggestion that organizations should harness the power of collective intelligence not simply in the idea generation stage, but in the other stages of the innovation process as well—in idea development, idea prioritization, and resource allocation.

While Open Innovation places the organization at the center of a "cloud" of knowledge sources, Collective Innovation creates linkages between those sources. MIT professor Rebecca Henderson suggests that Open Innovation can be considered as "reaching out to sources of knowledge," while Collective Innovation "triggers a rich conversation among those sources."

While there may not be one right answer to a particular problem, there may be many good answers. A connected web of individuals sharing knowledge increases the probability of generating good answers, if not the "right" answer. Collective Innovation harnesses the power of collective intelligence to improve the overall accuracy and efficiency of organizational innovation.

In the next issue of *Strategy & Innovation*, we will outline the Collective Innovation process in detail, examining each of its four stages—idea generation, idea development, idea prioritization, and resource allocation—and the steps an organization should take to implement Collective Innovation throughout these stages. ♦

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